

NOTICE TO MARKET PARTICIPANTS AND STAKEHOLDERS

May 20, 2025

RE: Rationale – Draft Final Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation

INTRODUCTION AND OVERVIEW

As part of its obligation to establish parameters to assess Rate of Last Resort (RoLR) providers'¹ financial performance under regulated rate tariffs (RoLR Tariffs), as directed by the *Rate of Last Resort Regulation* AR 262/2005 (RoLR Regulation),² and to consult on those parameters, the MSA has published Draft Final Parameters on the MSA's website ([here](#)).³ The MSA provides this rationale to explain the Draft Final Parameters, to identify how feedback received in consultation on the July 2025 Parameters informed the Draft Final Parameters, and to facilitate consultation with stakeholders on the Draft Final Parameters.⁴

PRINCIPLES AND FACTS

The MSA will assess RoLR providers' financial performance under RoLR tariffs against two parameters:

1. Realized Return Divergence (RRD);⁵ and
2. Relative Risk Exposure (RRE).⁶

The MSA developed the Draft Final Parameters having regard to the following principles:

¹ For the purposes of the Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation, a "RoLR provider" is defined as all persons that perform any or all of the duties or functions required of an owner of an electric distribution system under the RoLR Regulation. An owner of an electric distribution system is not considered a "RoLR provider" if they do not perform duties or functions under the RoLR Regulation.

² *Rate of Last Resort Regulation* AR 262/2005 (RoLR Regulation), s. 11.2.

³ [DRAFT Final – Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation](#) (Draft Final Parameters), May 20, 2025.

⁴ [Market Surveillance Administrator, Stakeholder Consultation Process](#), August 11, 2016 (Stakeholder Consultation Process).

⁵ Draft Final Parameters, s. 2., pp. 2-10.

⁶ Draft Final Parameters, s. 3., p. 10.

1. Regulatory Authorities are required to set a RoLR rate (energy charge) for each RoLR provider for two years (RoLR term), signaling the legislature's intention that an energy charge remain in place following approval by the relevant Regulatory Authority.
2. RoLR Tariffs should be reopened only in exceptional circumstances and then only when there is a significant impact on the RoLR provider's financial performance.
3. Regulatory Authorities have the exclusive jurisdiction to set just and reasonable rates and approve a just and reasonable return margin to compensate RoLR providers for offering the RoLR. Accordingly, the MSA's assessment of RoLR providers' financial performance should account for any return margin approved by RoLR providers' Regulatory Authorities, whether the return margin is explicitly specified or implied in the calculation of the energy charge in the approved energy price setting plan (collectively, Implied Return Margin).
4. Regulatory Authorities have the exclusive jurisdiction to set just and reasonable risk margins to compensate RoLR providers for risks associated with costs considered by a Regulatory Authority to be reasonable and prudent.⁷ Accordingly, the MSA's assessment of RoLR providers' financial performance should have regard for the risks considered by the Regulatory Authority when setting a risk margin.
5. The RoLR Regulation sets minimum requirements for RoLR Tariffs but does not specify any particular energy price setting plan (EPSP) or RoLR Tariff, and Regulatory Authorities are free to approve any compliant EPSP. In addition, boards of REAs have the power to set tariffs at a level they see fit.⁸ As far as possible, the MSA's assessment of RoLR providers' financial performance should be consistent with each RoLR provider's specific RoLR tariff and quantitative rate-setting methodology.
6. RoLR providers are responsible for the management of their business and have the best information to identify and quantify the risks they face when they present a RoLR Tariff and EPSP to their Regulatory Authority for approval and during the RoLR term.
7. Under cost-of-service regulation, including the RoLR, utilities are not guaranteed recovery of all costs contemplated in their tariff or a particular return from providing the regulated service. A regulated utility may earn profits or experience losses when operating under an approved tariff.
8. Given the uncertainty inherent in forward-looking rate setting, it is impossible to identify with certainty what risks, if any, to RoLR providers will materialize during the RoLR term or how any risks that materialize will impact RoLR providers' financial performance. For that reason, establishing inflexible parameters risks both unwarranted findings of

⁷ RoLR Regulation, ss. 5(1), 5(4).

⁸ 2023 ABCA 142 *EQUS REA Ltd v Alberta (Utilities Commission)*, at para. 105.

unacceptable financial performance and unwarranted findings of acceptable financial performance.

The Draft Final Parameters were also developed having regard to the following facts:

1. Sixteen energy charges are offered by RoLR providers, each calculated differently under different EPSPs:
 - a. Some energy charges include an Implied Return Margin, while others do not include a return margin.
 - b. Some energy charges include a risk margin that compensates the RoLR provider for costs resulting from risks arising from the 10% limit on changes to energy charges between RoLR terms (10% Collar).⁹ RoLR providers receiving such compensation would receive greater revenues without bearing commensurate costs in the prevailing RoLR term.
 - c. Some energy charges recover non-energy costs, while others only recover energy costs.
 - d. Some energy charges recover costs associated with distribution line losses or unaccounted-for-energy (UFE), while others do not. RoLR providers that do not recover line loss or UFE costs in the energy charge may increase the consumption billed to customers to offset these costs.
2. The 10% Collar could lead a RoLR provider to receive higher or lower revenues than intended by its EPSP in some RoLR term without a commensurate change in costs. This may result in a RoLR provider earning realized returns or experiencing a loss as a result of the 10% Collar.
3. A RoLR provider's realized return includes revenues resulting from any risk margin and Implied Return Margin included in the energy charge, and costs incurred from risks realized during a RoLR term. A RoLR provider's realized return will exceed any Implied Return Margin if the compensation provided by the risk margin exceeds the cost of risks realized during a RoLR term, and vice-versa.

SUMMARY OF PARAMETERS

Realized Return Divergence (RRD) parameter

The RRD parameter examines the divergence of a RoLR provider's realized return from its approved EPSP. RRD metrics include adjustments to reflect the specific EPSPs and RoLR tariffs approved by each RoLR provider's Regulatory Authority. The MSA will compare each RoLR provider's RRD metric to an Indicative RRD Threshold. An RRD metric that is outside the

⁹ RoLR Regulation, s. 11(4).

Indicative RRD Threshold may result in a finding that the RoLR provider's financial performance is unacceptable.

Different RRD metrics are used for RoLR providers with and without an Implied Return Margin. The Divergence from Implied Return (DIR) is the RRD metric for RoLR providers with an Implied Return Margin. The DIR reflects the expected divergence of the realized return from the Implied Return Margin over the RoLR term. The Indicative RRD Threshold used for the DIR is $0\% \pm 150\%$; if a RoLR provider's DIR is more than 150% or less than -150%, the MSA may find its financial performance to be unacceptable.

The Adjusted Divergence Margin (ADM) is the RRD metric for RoLR providers without an Implied Return Margin. The ADM reflects the share of adjusted revenues expected to be recovered as a realized return over the RoLR term. The Indicative RRD Threshold used for the ADM is $0\% \pm 10\%$; if a RoLR provider's ADM is more than 10% or less than -10%, the MSA may find its financial performance to be unacceptable.

Relative Risk Exposure (RRE) parameter

The RRE examines whether a RoLR provider is exposed to any risks which it is not compensated for in its EPSP and which significantly impact its financial performance. In their submissions to the MSA, RoLR providers must identify and quantify the impact of any uncompensated risks on their financial performance. The MSA will assess any identified risks and, if any uncompensated risk significantly impacts a RoLR provider's financial performance, the MSA may find the RoLR provider's financial performance is unacceptable.

RATIONALE

Energy charges are set for two years

In establishing the Draft Final Parameters, the MSA considered the legislative intent of the RoLR Regulation to set energy charges for a two-year period. The RoLR Regulation explicitly requires RoLR providers to "set each Rate of Last Resort for a term of 2 years,"¹⁰ directs RoLR providers to "set the regulated rate for a period of 2 years,"¹¹ and requires the Regulatory Authority to set the RoLR Provider's risk margin for two years.¹² Further, the Regulatory Authority is required to approve an EPSP which "ensures the owner cannot recover any additional costs through the electric energy charge from a regulated rate customer once a Rate of Last Resort rate is finalized."¹³ Taken together, these provisions demonstrate a clear legislative intention that, once approved by a Regulatory Authority, energy charges are to remain in place for the two-year RoLR term.

¹⁰ RoLR Regulation, s. 10(1).

¹¹ RoLR Regulation, s. 5.1(3).

¹² RoLR Regulation, s. 5(6).

¹³ RoLR Regulation, s. 6(1)(f).

While energy charges are fixed for a two-year period, the RoLR Regulation also directs the MSA to review RoLR providers' financial performance at six-month intervals within the RoLR term.¹⁴ At the same time, a RoLR provider's realized return may vary significantly at different points during the two-year RoLR rate term as revenues and costs increase and decrease with seasonal changes in wholesale prices, customer load, and the number of sites served.

As energy charges are fixed for two-year terms, and their price accounts for expected costs associated with an entire two-year RoLR term, a metric that only accounts for revenues and costs realized by the sixth month in the RoLR term (or any other month in the RoLR term) may erroneously suggest that a RoLR provider's financial performance is unacceptable even though the provider's financial performance to the end of the RoLR rate term would be acceptable. Alternatively, a metric that only accounts for revenues and costs realized by a particular month in the RoLR rate term may erroneously suggest that a RoLR provider's financial performance is acceptable, even though the provider's financial performance to the end of the RoLR rate term would be unacceptable.

To avoid such outcomes the MSA will develop models to forecast the RRD received by each RoLR provider by the end of the RoLR rate term ("forecast RRD metric"). The RRD parameter compares the forecast RRD metric against the Indicative RRD Threshold. The MSA's models may use electricity futures prices, site and load data, and RoLR providers' realized revenue and cost data to produce the forecast RRD metric. These models may be refined by the MSA over time as new information becomes available.

The RoLR Regulation requires each financial performance reports include a "detailed evaluation of the owner's financial performance over the preceding 6-month period."¹⁵ A RoLR provider's actual revenue and costs in any given month may not be known until at least the following month, so financial performance reports cannot evaluate financial performance over the preceding 6-month period using only actual revenue and cost data. The forecast RRD metric enables financial performance for all months in the RoLR term to be assessed using a combination of actual and forecast revenue and cost information.

RoLR Tariffs should be opened only in exceptional circumstances

In developing the Draft Final Parameters, the MSA considered that, once approved, energy charges are intended to remain in place for two years. The only exception provided is where the MSA finds that a RoLR provider's financial performance is unacceptable, leading to a reopener proceeding before the RoLR provider's Regulatory Authority.¹⁶ In other contexts, the Alberta Utilities Commission (Commission) has considered the purpose of reopener provisions, finding that:

¹⁴ RoLR Regulation, s. 11.2(1)(b).

¹⁵ RoLR Regulation, s. 11.2(2)(a).

¹⁶ RoLR Regulation, ss. 11.2, 11.3(1).

1. reopener provisions are a safeguard against unexpected results, in the event that a problem with the design or operation of the plan makes its continued operation untenable;¹⁷ and
2. reopener providers are triggered by positive or negative financial results that were unanticipated at the commencement of the plan, material and which cannot be addressed by other features of the plan.¹⁸

Taken together, the RoLR Regulation and Commission jurisprudence indicate that a re-opener should only occur in response to exceptional circumstances. On that basis, the MSA developed the Draft Final Parameters with a view to identifying unacceptable financial performance resulting from exceptional circumstances that impact RoLR providers' ability to provide the RoLR for the two-year RoLR term.

RoLR providers may experience profits or losses greater than their approved return margin

The MSA developed its Draft Final Parameters to reflect the principle that RoLR providers' financial performance may be acceptable, even if the RoLR provider achieves a rate of return greater than the Implied Return Margin, or the RoLR provider experiences a loss.

While it is distinct from the previous regulated rate option (RRO), like the RRO, the RoLR is provided under cost-of-service regulation in which rates are set based on forecast costs for a forward-looking test period. Although they are subject to cost-of-service regulation, utilities (including RoLR providers) remain private businesses which make business decisions with a view to maximizing returns to their shareholders.¹⁹ Like other businesses, utility shareholders enjoy the possibility of a gain through profit and bear the risk of loss from carrying on business.²⁰

Under cost-of-service regulation, once a utility's rates are set, they are not adjusted during the term based on the utility's actual performance. The utility bears the forecast risk: if the utility manages its costs such that they are lower than forecast, it keeps the difference between costs approved for collection through rates and its actual experience.²¹ Conversely, if the utility's costs are higher than forecast, it is not entitled to recover the difference from ratepayers. Both possible outcomes are acceptable under cost-of-service regulation. Put another way, cost of service regulation is not a guarantee of any particular level of profit or insurance against any loss; an

¹⁷ Alberta Utilities Commission, Decision 2012-237 – *Rate Regulation Initiative: Distribution Performance-Based Regulation*, September 12, 2012 (Decision 2012-237).

¹⁸ Decision 20414-D01-2016.

¹⁹ *ATCO Gas & Pipelines Ltd v Alberta (Energy & Utilities Board)* 2006 SCC 4, [2006] 1 SCR 140 (Stores Block), at para. 4.

²⁰ Stores Block, at para. 67.

²¹ Decision 2012-237 *Rate Regulation Initiative Distribution Performance-Based Regulation*, September 12, 2012 (Decision 2012-237), at para. 10.

approved RoLR Tariff is not a guarantee the RoLR provider will achieve any particular level of financial performance.

The approved risk margin also does not guarantee a RoLR provider will incur a specific level of profits (or losses) but rather provides compensation for risks that remain with the RoLR provider over the RoLR term. In effect, the risk margin is compensation for the possibility that the RoLR provider may incur a range of potential profit or loss levels by offering RoLR energy services, based on what is known of risks faced by the RoLR provider ex-ante. The MSA developed the Indicative RRD Threshold to allow for the possibility that RoLR providers may earn a return other than the approved return without their financial performance being unacceptable.

Regulatory Authorities have the jurisdiction to set just and reasonable rates

Regulatory Authorities are required to ensure that both the risk margin and the reasonable return to the RoLR provider from providing the RoLR are just and reasonable.²² Approval of a RoLR Tariff indicates the Regulatory Authority finds the EPSP risk margin will provide the RoLR provider with just and reasonable compensation for the risks of providing the RoLR during the two-year RoLR Term. The Regulatory Authority retains the jurisdiction to set just and reasonable rates following a re-opener recommendation by the MSA.²³

Where Regulatory Authorities have the exclusive jurisdiction to set just and reasonable rates, the MSA's role under the RoLR Regulation is to evaluate and report upon RoLR providers' financial performance. The MSA considers that its assessment of RoLR providers' financial performance does not include consideration of whether an approved RoLR Tariff actually provides a just and reasonable return during the RoLR Term or whether, due to changing circumstances, the approved RoLR Tariff continues to be just and reasonable.

The MSA developed the Draft Final Parameters having regard to Regulatory Authorities' jurisdiction to set just and reasonable rates. In particular, the MSA considers that RoLR Providers' financial performance will be acceptable where it aligns with expected performance under the approved EPSP, allowing for the possibility that RoLR providers may validly earn profits or experience losses beyond the approved return margin, whether that return margin is explicitly stated or is implicit in the construction of the EPSP. For this reason, any return margin implicitly or explicitly approved by the Regulatory Authority is the basis for the RRD parameter.

The DIR RRD metric and its Indicative RRD Threshold reflects the Implied Return Margin, while allowing for the possibility that financial performance different than the Implied Return Margin may be acceptable. Similarly, the ADM RRD metric and its Indicative RRD Threshold reflect an Implied Return Margin of \$0/MWh, while allowing for the possibility that financial performance different from breakeven may be acceptable. Thus, where a RoLR provider's RRD metric falls outside the

²² Decision 29204-D02-2025, para. 49; *RoLR Regulation*, s. 5.

²³ *RoLR Regulation*, ss. 11.2(6), 11.2(7).

Indicative RRD Threshold, the MSA may find the RoLR provider's financial performance is unacceptable.

During consultation leading to the July 2025 Parameters, some stakeholders indicated that parameters for financial performance should be objective, rather than subjective. The MSA agrees that an objective parameter for financial performance is appropriate as this will provide consistency in its analysis of RoLR Providers financial performance. The MSA considers the Indicative RRD Thresholds to be reasonable, objective indications of financial performance, and that financial performance outside thresholds may be unacceptable.

Objective parameters are fair to RoLR providers and consumers. To treat RoLR providers and consumers fairly, the Indicative RRD Thresholds have been set symmetrically around 0, representative of a RoLR provider breaking even but-for any Implied Return Margin.

The RoLR Regulation does not specify the terms of the RoLR tariff

While the RoLR Regulation sets out the minimum requirements for RoLR Tariffs, it does not direct any particular mechanism for setting rates. Each Regulatory Authority may approve a RoLR Tariff and included EPSP different from all RoLR Tariffs and EPSPs approved by other Regulatory Authorities. The board of an REA has a "plenary power to set the tariff at a level it sees fit for reasons that appeal to it."²⁴ For example, the Commission approved EPSPs in Decision 29204-D01-2025 which only include energy-related costs,²⁵ while EPSPs approved by other Regulatory Authorities include non-energy related charges.

An approved energy charge is calculated according to a formula in the RoLR provider's approved EPSP. The formulae vary, but generally include components to recover expected costs associated with providing the RoLR (energy charge components). These energy charge components typically reflect the expected costs of offering RoLR energy services in the prevailing RoLR term, but energy charge components may also reflect the expected costs of non-energy services provided to RoLR customers ("non-energy energy charge components"). Energy charge components may also reflect the expected costs of offering RoLR energy services in other RoLR terms or adjustments to the energy charge in a term to comply with the 10% Collar ("non-prevailing term energy charge components"). Revenues received by a RoLR provider may therefore reflect the ex-ante recovery of energy and non-energy costs in the prevailing term, costs associated with other RoLR rate terms, or the impact of the 10% Collar.

In contrast, during the RoLR term, the RoLR provider will incur energy costs that must be recovered by energy charges and may incur non-energy costs that the Regulatory Authority has decided must be recovered in whole or in part using energy charges. In any given term, the RoLR provider will not incur costs associated with the expected cost of offering RoLR energy services in other RoLR rate terms.

²⁴ 2023 ABCA 142, at para. 105.

²⁵ Decision 29204-D02-2025, at para. 49.

These differences between energy revenues and costs incurred by the RoLR provider during a RoLR term necessitate adjustments to the measures of revenue and cost used to assess the RRD of the RoLR provider.

A RoLR provider will incur non-energy costs such as administration costs during a RoLR rate term. If an EPSP contemplates the recovery of some or all non-energy costs using an energy charge, an omission of non-energy costs from the measure of RoLR cost will bias the RRD metric. Alternatively, the exclusion of non-energy cost components from the measures of RoLR energy revenues and costs would entirely divorce the RRD metric from non-energy costs that a Regulatory Authority approved to be recovered using the energy charge and would impede that Regulatory Authority's ability to adjust the energy charge to resolve any unanticipated over-or-under-collection of non-energy costs.

The measure of RoLR energy revenue must therefore include any revenues associated with non-energy cost components included in energy charges, while the measure of RoLR cost must include all non-energy costs that were approved to be recovered using energy charges. In instances where a RoLR provider recovers a specific cost using both energy charges and other means, that specific cost must be prorated according to the share expected to be recovered using energy charges at the time the EPSP was approved.

A RoLR provider whose energy charge only recovers energy-related costs and risks will have an RRD measure that reflects the realized return on energy-related costs only.

The risk margin does not guarantee a RoLR provider will incur a specific level of profits (or losses) but rather provides just and reasonable compensation for risks that remain with the RoLR provider over the RoLR rate term. In effect, the risk margin is compensation for the possibility that the RoLR provider may incur a range of potential profit or loss levels by offering RoLR energy services, based on what is known of risks faced by the RoLR provider ex-ante. The RRD measure reflects these profit or loss levels, inclusive of the revenues resulting from any risk margin and Implied Return Margin included in the energy charge, and costs incurred from risks realized during the RoLR term.

Consistency across RoLR providers

The MSA will use the Realized Return Divergence (RRD) parameter to assess RoLR providers' financial performance. This enables comparable thresholds to be established for RoLR providers with and without an Implied Return Margin prior to the measurement of financial performance.

The use of a simpler metric such as profit or loss would require the use of different thresholds for each RoLR provider and would result in the metric not appropriately capturing financial performance in a prevailing term for all RoLR providers given their respective EPSPs.

The use of metrics particular to each RoLR provider would result in inconsistent parameters for RoLR providers. The MSA's parameters must be as consistent as possible while accounting for the possibility of differences in EPSPs. To achieve the latter, the RRD parameter uses metrics that reflect the two general approaches to constructing EPSPs.

Different RRD metrics and Indicative RRD Thresholds are used for RoLR providers with and without an Implied Return Margin. The DIR metric ensures the magnitude of the divergence of the realized return from any Implied Return Margin is not obscured by the magnitude of the risk margin included in the energy charge, while the ADM metric ensures an intuitive RRD metric is available to assess financial performance for RoLR providers without an Implied Return Margin. The DIR metric cannot be used for RoLR providers without an Implied Return Margin, while the use of the ADM metric for a RoLR provider with an Implied Return Margin could result in a finding that its financial performance is unacceptable if its realized return exactly equals the Implied Return Margin.

The MSA considered a single RRD metric including elements of the ADM and DIR metrics but rejected this metric as it obscures the magnitude of the divergence between the realized return and Implied Return Margin.

Both RRD metrics account for energy revenues received and costs incurred by the RoLR provider and includes specific adjustments to ensure the metric reflects the financial performance of the RoLR provider with respect to costs recovered using energy charges in alignment with its approved EPSP.

The RRD metrics will be compared against the Indicative RRD Threshold applicable to each RoLR provider. The MSA will use the results of this assessment as part of its determination of whether a RoLR provider's financial performance is acceptable.

Measurement at the energy price level

Where necessary, the RRD metric will be calculated at a RoLR provider-energy charge level to ensure financial performance assessments are comparable and to ensure each RoLR provider's financial performance is evaluated on the appropriate basis.

The MSA considered whether the RRD metric should instead be calculated at a RoLR provider-distribution service area level. Many owners of distribution systems have arrangements with an unaffiliated RoLR provider to provide RoLR energy services in their service area. Most of these RoLR providers have established a single EPSP and energy charge to serve customers in multiple distribution service areas (service areas), and these EPSPs and energy charges have been approved by Regulatory Authorities for each service area.

Where a single energy charge is offered to customers in multiple service areas, the risk margin included in the energy charge compensates the RoLR provider for the aggregate expected cost of risks the RoLR provider is exposed to by offering RoLR energy services to customers in all such service areas (aggregate risk margin). The MSA expects disaggregating revenues and costs incurred by RoLR providers into service area-level values would be challenging and resource-intensive for RoLR providers that serve customers in multiple service areas. The use of a RoLR provider-service area level metric for RRD would unduly burden RoLR providers without a corresponding benefit.

Alternatively, a RoLR provider's EPSP may produce different energy charges for different service areas or customer classes. In these instances, the approved risk margin may differ between energy charges and the MSA's ability to assess financial performance on each energy charge separately would not be impeded.

For example, the financial performance of a RoLR provider offering a single energy charge will be assessed with a single RRD metric and RRE parameter. If a RoLR provider serves customers in multiple distribution service areas and offers distinct RoLR energy prices to customers in those service areas, or offers distinct RoLR energy prices to distinct types of customers, separate RRD metrics calculated using corresponding measures and separate RRE parameters will be used to assess the financial performance of the RoLR provider as it pertains to each energy charge offered.

RoLR providers manage their businesses and have the best information about risks they face

While the RoLR is a new product in the Alberta electricity market, it is a regulated service offered under a regulated tariff, which must be approved on the basis that it will give the RoLR provider a reasonable opportunity to recover its prudent costs and expenses, including compensation for risk.²⁶ As the Commission stated:

The reasonable opportunity to earn their allowed rate of return [...] includes a duty of the distribution utilities to conduct their business in a way that meets their obligations and to do so in a way that contributes to their own success in earning their allowed rate of return or better.²⁷

In addition, as the Commission has found, "a utility has better knowledge of its operations and the potential for improved efficiency and reduced costs than a regulator [...] ever will."²⁸ As such, the RoLR providers themselves are best positioned to manage costs over the RoLR term. RoLR providers are also best positioned to identify the risks that they face from offering the RoLR, both when they develop their EPSPs to present to their Regulatory Authorities and as risks evolve over the RoLR term.

Treatment of physical forward contract and financial contract costs

RoLR providers may purchase or sell physical forward contracts or financial contracts prior to or during the RoLR rate term to manage risks associated with offering RoLR energy services. The MSA acknowledges comments from stakeholders and will include all contract costs incurred by RoLR providers in the RRD metric, provided that the contracts are transacted between arms-length entities and reflect a market price, the contracts are used by the RoLR provider to hedge

²⁶ RoLR Regulation, s. 6.

²⁷ Decision 20414-D01-2016, at para. 287.

²⁸ Decision 28300-D01-2024 *AUC-Initiated Review Under the Reopener Provision of the 2018-2022 Performance-Based Regulation Plans for ATCO Electric and ATCO Gas*, at para. 41.

RoLR load and not to speculate or hedge against some other product, and the EPSP recovers expected costs associated with contracts using the energy charge. An EPSP recovers the expected cost of contracts in the energy charge if it uses contract prices to set the energy charge, calculates the risk margin in a manner conditional on contracts being transacted following the establishment of the energy charge, or provides compensation for risks associated with contracts expected to be transacted following the establishment of the energy charge.

With this change, the RRD metric will more closely align with RoLR providers' EPSPs and more accurately reflect RoLR providers' financial performance, while ensuring any risk management activities undertaken by a RoLR provider outside of the scope of the EPSP will not impact the likelihood of a rate reopener.

Identification and quantification of risks

Because they have the best information about their costs and the risks they face and are aware that the RoLR is set for two years, the MSA considers RoLR providers have submitted all relevant information when presenting their RoLR Tariffs and EPSPs to their Regulatory Authorities for approval. This includes both with respect to their expectations of costs and the risks they expect to face. Regulatory Authorities approve just and reasonable compensation for these risks on the basis of information provided by RoLR providers.

For this reason, if a risk is compensated by an EPSP, a RoLR provider experiencing costs associated with that risk in excess of risk compensation during a RoLR term (or experiencing gains associated with that risk) may not warrant a finding that the RoLR provider's financial performance is unacceptable.

The identity and impact of risks is uncertain

In its decision approving EPSPs prepared by Commission-regulated RoLR providers, the Commission found that:

[...] the legislated RoLR structure is unique and imposes new, incremental risks that are specific to RoLR 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.²⁹

and that

The RoLR Regulation introduces a unique and novel retail electricity product to the Alberta marketplace. The legislative requirements of this new product imposes restrictions and incremental risks on the RoLR Providers over and above those faced by competitive retailers [***³⁰], that were not present for RRO providers under

²⁹ Decision 29204-D02-2025, at para. 46.

³⁰ Confidential portion redacted.

the RRO contract. As a result, this novel product creates more uncertainty as to the price of the risks faced by RoLR Providers.³¹

The MSA developed the Draft Final Parameters to account for both the inherent uncertainty from offering the RoLR and the fact that the future is unknowable. While RoLR providers have done their best to identify the risks they face from offering the RoLR, it remains the case that a risk may materialize during the RoLR term which was unanticipated when the RoLR Tariff was approved, or an anticipated risk may have a financial impact materially different than anticipated. The RRE Parameter provides the MSA the ability to assess whether a RoLR provider's financial performance may be unacceptable, should either of these situations occur.

CHANGES INCLUDED IN THE DRAFT FINAL PARAMETERS AND RRD WORKBOOK

In response to stakeholder feedback in technical sessions and stakeholders' written comments during the consultation on the July 2025 Parameters, the Draft Final Parameters and Draft Final RRD Workbook³² include various changes compared to the Draft Parameters and Data Submissions Workbook released on March 14, 2025.³³ Many of these changes are reflected in the July 2025 Parameters released on May 1, 2025.

Changes resulting from stakeholder feedback

Application to RoLR providers

The MSA has clarified the applicability of the Draft Final Parameters to RoLR providers. The MSA has defined "RoLR providers" to clarify that the parameters will not be assessed at a distribution owner-level,³⁴ and to clarify that RoLR providers will not be required to make data submissions pertaining to each service area where the RoLR provider offers RoLR services unless different energy charges are offered in different service areas.³⁵

ROC parameter replaced with RRD parameter

The MSA has replaced the Return on RoLR Costs (ROC) parameter with the Realized Return Divergence (RRD) parameter.³⁶ The RRD metric is linear in Energy Revenue-Received Costs (ERRC), unlike the ROC parameter. This change ensures a divergence of the realized return from the approved EPSP is treated identically for positive or negative divergences of identical magnitudes in conjunction with the Indicative RRD Threshold.

³¹ Decision 29204-D01-2025, para. 64.

³² [DRAFT Final – Appendix C RRD Data Submissions and Metrics Workbook](#) (RRD Workbook), May 20, 2025.

³³ [DRAFT Parameters for Acceptable Financial Performance under the Rate of Last Resort Regulation](#), March 14, 2025; [DRAFT Appendix C Data Submissions Workbook](#), March 14, 2025.

³⁴ Draft Final Parameters, s. 1.

³⁵ *Ibid.* s. 4.

³⁶ *Ibid.* s. 2.

ARPC metric renamed to IRM

Some approved EPSPs specify the return margin included in the energy charge, while others include an implicit return margin in the energy charge. Recognizing this reality, the MSA renamed the Approved Return on Prevailing Costs (ARPC) metric to the Implied Return Margin (IRM).³⁷

The identification of the return margin included in the energy charge is fundamental to an assessment of financial performance, so the MSA does not find unacceptable financial performance if a RoLR Provider earns the return margin.

A RoLR provider incurs revenues in part dependent on its energy charge during a RoLR term. A RoLR provider's energy charge is comprised of up to three types of components, which may each be represented by multiple energy charge components in the energy charge calculation:

1. A risk-free cost;³⁸
2. A risk margin;³⁹ and
3. An Implied Return Margin.

During a RoLR rate term, a RoLR provider incurs the following costs on a \$/MWh basis:

1. A risk-free cost;⁴⁰ and
2. A realized cost incremental to the risk-free cost (incremental realized cost).⁴¹

A RoLR provider will receive a realized return in \$/MWh equal to sum of the risk margin and Implied Return Margin, less the incremental realized cost. The value of the Implied Return Margin must be known to ensure the MSA does not find a RoLR provider's financial performance to be unacceptable if it earns the Implied Return Margin.⁴²

³⁷ *Ibid.*, s. 2.3.

³⁸ An expected cost to provide RoLR services in a RoLR term, not accounting for incremental costs associated with risks. At minimum, risk-free cost includes costs captured by the requirements of section 11(1) of the RoLR Regulation.

³⁹ May include or exclude compensation for risks incurred from offering RoLR energy services in other RoLR terms.

⁴⁰ The risk-free cost incurred by the RoLR provider during the RoLR term is identical to the risk-free cost included in the RoLR energy charge.

⁴¹ Incremental realized cost may be positive or negative or zero.

⁴² This occurs if the risk margin is equal to the incremental realized cost.

Changes to monthly consumption data submissions requirements

The MSA has adjusted monthly consumption data submission requirements for RoLR providers to align with each RoLR provider's method of recovering distribution line loss and UFE costs, and to limit unnecessary information requested from some RoLR providers.⁴³

Contract costs included

The MSA has included all contract costs that meet certain conditions in the RRD metric, as described above.⁴⁴

Consumer awareness surcharge cost calculation revised

The MSA has revised the calculation of consumer awareness surcharge costs in the RRD metric to reflect the amounts collected and remittable based on customer usage, notwithstanding amounts not remittable resulting from customer non-payment.⁴⁵ This revision ensures the RRD metric only captures revenues received and costs incurred to offer RoLR services in a given RoLR term.

Non-energy cost defined

The MSA has added a definition of "non-energy cost" to enable RoLR providers to assess what costs should be allocated to approved non-energy costs in the ERRC.⁴⁶

RoLR forecasting allowed

The MSA recognizes RoLR providers have the best information about the risks they face and have experience forecasting their own financial performance. Therefore, the MSA will allow RoLR providers to optionally provide forecast monthly revenue and costs to the MSA as part of their data submissions.⁴⁷ The MSA will consider using any forecast monthly revenue and costs submitted by RoLR providers in the RRD metric calculation.

ERRC and RRE evaluation clarified

The MSA has clarified that costs incurred by RoLR providers that are not recovered under the EPSP or through other means must not be reported as a cost in the ERRC calculation and must instead be submitted to the MSA as an uncompensated risk.⁴⁸ The MSA will evaluate RRE using

⁴³ *Ibid.*, Section 2.4.3, Appendix B.1.

⁴⁴ *Ibid.*, s. 2.5.2.

⁴⁵ *Ibid.*, s. 2.5.4.

⁴⁶ *Ibid.*, s. 2.5.5.

⁴⁷ *Ibid.*, s. 2.6.

⁴⁸ *Ibid.*, Section 2.5.

all data and information submitted by RoLR providers and may include an assessment of any costs excluded from the RRD metric.⁴⁹

Allowance for data estimations

The MSA will allow RoLR providers to provide estimates of any energy revenue data, cost data, or data provided at the start of a RoLR term if that data is not directly available to the RoLR provider.⁵⁰ RoLR providers that provide data estimates must provide supporting information.

Granular consumption and site count data submission requirements omitted

The MSA has removed requirements that RoLR providers submit daily consumption and site count data, and hourly consumption data, in order to lower RoLR providers' costs of complying with submission requirements. The MSA can reproduce this information using site ID data submitted by RoLR providers, so the removal of these submission requirements will reduce the burden on RoLR providers.

Site ID data submission requirement clarifications and adjustments

The MSA has removed the redundant energy charge data request from its site ID data submission requirement.⁵¹ The MSA has also clarified the treatment of certain site ID information, and indicated RoLR providers may discuss alternative site ID data structures with the MSA.

Consumer awareness surcharge remittance data submission requirement

The MSA will require a RoLR provider submit the total value of the consumer awareness surcharge remitted to the Minister in each month, in order to confirm consumer awareness surcharges should be treated as a cost in the RoLR provider's ERRC calculation.⁵² Consumer awareness surcharge remittance data will not be used in place of consumer awareness surcharge costs in the ERRC calculation.

Additional data submissions

The MSA may request additional data from RoLR providers when needed to improve the accuracy of its forecasts of revenues and costs, or if it otherwise deems such data necessary to assess a RoLR provider's financial performance in the prevailing RoLR term.⁵³

⁴⁹ *Ibid.*, s. 3.

⁵⁰ *Ibid.*, Appendix A.7.

⁵¹ *Ibid.*, Appendix B.3.

⁵² *Ibid.*, Appendix B.3.

⁵³ *Ibid.*, Appendix B.6.

Additional changes in the Draft Final Parameters and RRD Workbook

Non-prevailing term energy charge components definition adjusted

The MSA has adjusted the definition of “non-prevailing term energy charge components” in the ARER calculation to include adjustments to the energy charge in the prevailing RoLR term to comply with the 10% Collar.⁵⁴ This change is intended to clarify that revenue deficiencies or surpluses resulting from the 10% Collar and components of the energy charge that recover costs incurred in a term other than the prevailing RoLR term are not accounted for in the ARER calculation.

Accounting for revenue deficiencies or surpluses resulting from the 10% Collar in the ARER calculation could result in a finding that a RoLR provider’s financial performance is unacceptable solely because of the 10% Collar, contrary to the intent of the RoLR Regulation.

EPRC metric name adjusted

The MSA has renamed “Energy Price-Recovered Costs” (EPRC) to “Energy Revenue-Recovered Costs” (ERRC) to reflect differences in RoLR providers’ recovery of distribution line losses and UFE costs.⁵⁵

Impact of rate reopener on RRD parameter clarified

The MSA has clarified that it may adjust the calculation of a RoLR provider’s RRD metric to align with any adjusted energy charge or new EPSP resulting from a rate reopener proceeding.⁵⁶ This will ensure that a RoLR provider’s financial performance will not be found to be unacceptable solely as a result of an adjustment to the energy charge or approval of a new EPSP.

Financial performance report release clarified and review period added

The MSA has clarified that finalized financial performance reports (reports) will be provided to RoLR providers twice per year and will be provided to Regulatory Authorities if a RoLR provider’s financial performance is found to be unacceptable.⁵⁷ Reports will not be published.

Prior to the finalization of reports, reports and the RRD Workbook will be provided to RoLR providers.⁵⁸ RoLR providers will have a short review period to comment on the report and RRD Workbook before the report is finalized.

⁵⁴ *Ibid.*, Section 2.4.2.

⁵⁵ *Ibid.*, Section 2.5.

⁵⁶ *Ibid.*, Section 2.8.

⁵⁷ *Ibid.*, Appendix A.1.

⁵⁸ *Ibid.*, Appendix A.2.

Record and data submission deadlines adjusted

The MSA has moved deadlines forward for RoLR providers to records and data to account for the addition of the review period, additional validation of contract data, and MSA calculation of granular consumption and site count data.⁵⁹

Data validation clarified

The MSA has clarified that it will validate data submitted by RoLR providers to ensure data used in its assessments of financial performance is reasonable.⁶⁰

Submissions requirement responsibilities clarified

The MSA has clarified that RoLR providers are responsible for producing any data or records required by the MSA regardless of any arrangements with entities the RoLR provider may have.⁶¹

Centralization of technical submission requirements

The MSA has centralized technical submission requirements in Appendix B for clarity.⁶²

Contract data submission requirements added

The MSA has included financial contract and physical forward contract data submission requirements to enable the MSA to validate contract costs included in the RRD metric.⁶³

RRD Workbook adjusted

The MSA has included relevant adjustments listed above in the RRD Workbook.

In addition to these changes, the MSA has added:

1. an “RRD Metrics” worksheet to produce the RRD metric from data submitted in the RRD Workbook;
2. a “Data Estimations” worksheet for RoLR providers to indicate whether any actual data is estimated by the RoLR provider or forecasted by the RoLR provider; and

⁵⁹ *Ibid.*, Appendix A.3.

⁶⁰ *Ibid.*, Appendix A.5.

⁶¹ *Ibid.*, Appendix A.6.

⁶² *Ibid.*, Appendix B.

⁶³ *Ibid.*, Appendix B.3.

3. a “Other Data Def & Req” worksheet to centralize definitions and requirements for all data to be submitted in the “Other Data” worksheet.

A cost subtotal by month has been added in the “Cost Data” worksheet for consistency with the “Revenue Data” worksheet.

Various minor changes have been made to improve the quality of definitions and ensure clarity and consistency with the Draft Final Parameters.

ADDITIONAL RESPONSE TO STAKEHOLDERS

Stakeholder Proposals

The MSA appreciates stakeholders’ willingness to provide alternative proposals for assessments of financial performance. Proposals submitted by stakeholders were analogous to the RRD parameter as they used metrics to assess differences between revenues and costs. While the MSA has adopted some elements of stakeholder proposals in the Draft Final Parameters, the MSA has not adopted stakeholders’ proposals for the reasons below.

All stakeholder proposals omitted some portion of the risk margin from the revenue measure of financial performance. The risk margin must be included in a measure of financial performance as it contributes to revenue received by the RoLR provider. A measure of financial performance that omits some portion of the risk margin may produce a measure with a negative bias if the costs associated with compensated risks remain accounted for in that measure. Alternatively, a measure of financial performance that omits both the revenue impact of some portion of the risk margin and costs associated with some risks will not reflect the RoLR provider’s financial performance with respect to their approved EPSP.

RoLR customer site ID data

The MSA has access to load settlement data and will use this data to produce forecasts of energy revenues and costs, to assess uncompensated risks, and to validate data submissions from RoLR providers.

The MSA requires RoLR customer site ID data to improve the accuracy of forecasts, risk assessments, and data validation. This will ensure any load settlement data used by the MSA pertains only to RoLR customers, and not customers on competitive rates or receiving default supply service.

RoLR providers have provided regulated customer site ID data to the MSA in the past. On April 22, 2020, the MSA requested regulated customer site ID data from all regulated rate providers as part of its final review and disposition of deferral accounts under the *Rate Cap (Board or Council Approved Regulated Rate Tariffs) Regulation AR 139/2017*.⁶⁴ The MSA requested 20 months of site ID data by day, service area, and rate class. The majority of RoLR providers provided this

⁶⁴ *Rate Cap (Board or Council Approved Regulated Rate Tariffs) Regulation AR 139/2017*, s. 8.

data to the MSA by June 1, 2020. The MSA is interested in understanding if any developments have since occurred that impede the production of RoLR site ID data going forward.

The MSA is open to receiving the site ID data in an alternative data structure to that listed in Appendix B.3 of the Draft Final Parameters, provided RoLR providers discuss the alternative data structure with the MSA and the alternative data structure does not impede the identification of RoLR sites for each day of a RoLR rate term.