



Rate of Last Resort Implementation by Rural Electrification Associations and municipalities

October 7, 2024

Disclaimer

This presentation reflects preliminary information available as of the publication date regarding the implementation of the Rate of Last Resort. The contents are provided for information only.

The information provided in this presentation is only applicable to Rate of Last Resort providers for Rural Electrification Associations and municipalities.

The Market Surveillance Administrator offers no guarantee of the accuracy of the content.

This review of the RoLR Regulation and FEOC principles does not constitute legal advice. The MSA recommends retaining counsel for guidance on compliance.

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Introductions

- Market Surveillance Administrator
- Observers
 - Ministry of Affordability and Utilities
 - Alberta Utilities Commission
 - Utilities Consumer Advocate

Rate of Last Resort Regulation

- MSA will not be reviewing the following sections of the RoLR Regulation in this presentation:
 - terms and conditions that must accompany an EPSP application [s. 3(3)]
 - risk margin requirements [s. 5]
 - one-time cost recovery [s. 6.1]
 - consumer awareness surcharge [s. 11.1]
 - information sharing with the UCA [s. 22.1]
 - billing information requirements [s. 3(4), 15]

Rate of Last Resort Regulation - Transition

- *Rate of Last Resort Regulation* (AR 262/2005) (“RoLR Regulation”) was filed September 27 and is now in effect
- Enables RoLR Providers to develop their RoLR regulated rate tariffs and request advice or FEOC determinations from the MSA now
- RRO Regulation continues to apply for periods between now and end of December [s. 23.1]
- RoLR Regulation expires December 31, 2028 [s. 23.2]

Rate of Last Resort Regulation – RoLR rates

- RoLR rates set for a term of 2 years [s. 10(1)]
 - First term spans January 1, 2025 to December 31, 2026 [s. 10(1)(a)]
- RoLR rates must be set according to an EPSP [s. 10(2)]
- Price setting period for a 2-year term begins when set by the owner, ends no later than 30 days before the term takes effect [s. 11(3)]
 - the price setting period for first term ends December 2, 2024
- RoLR rates must be calculated based on:
 - RoLR customer load forecasts made during price setting period [s. 11(1)(a)]
 - Electricity market prices prevailing during the price setting period [s. 11(1)(b)]
 - Consumer awareness surcharge [s. 11(1)(c)]

Rate of Last Resort Regulation – RoLR rates

- RoLR rates cannot be based on market prices prevailing before or after a relevant price-setting period [s. 11(2)]
 - Forward prices for 2025-2026 can be used to calculate the RoLR rate in the first term as long as those prices were established on or before December 2, 2024
- RoLR rates can only be adjusted by a maximum of 10% after the end of each 2-year term [s. 11(4)]
 - If a RoLR rate of 10 ¢/kWh is set in the first term, then RoLR rates in the second term must be between 9 ¢/kWh and 11 ¢/kWh
- If a RoLR rate is reopened within a term, the 10% adjustment applies to the RoLR rate in effect at the end of a term [s. 11(5), 11.3(8)]
 - If a RoLR rate is initially 10 ¢/kWh, reopened to 20 ¢/kWh before the end of the first term, then RoLR rates in the second term must be between 18 ¢/kWh and 22 ¢/kWh

Rate of Last Resort Regulation – Requirements for an EPSP

- An EPSP is a RoLR energy price setting plan that: [s. 1(d.1)]
 - includes a risk margin
 - outlines the methodology for setting RoLR rates for regulated customers to ensure RoLR rates are just, reasonable and reflective of market conditions
- A RoLR EPSP must:
 - use a fair, efficient, and openly competitive process [s. 5.1(1)(a)]
 - provide a reasonable degree of transparency to ensure resulting RoLR rates are just, reasonable and based on market conditions [s. 5.1(1)(b)]
 - set RoLR rates for a term of 2 years [s. 5.1(3)]

Rate of Last Resort Regulation – EPSP development

- RoLR providers must apply for approval of a regulated rate tariff (RRT) with their regulatory authority [s. 3(1)]
- Before applying to its regulatory authority, RoLR providers must submit their EPSP to the MSA [s. 3(7)]
- RRT application to the regulatory authority must include:
 - an EPSP [s. 3(2)(a)]
 - an MSA FEOC determination report [s. 3(2)(b)]
 - terms and conditions for regulated rate customers [s. 3(2)(c)]
 - billing information requirements [s. 3(2)(d)]
 - any other appropriate terms or conditions [s. 3(2)(e)]

Rate of Last Resort Regulation – MSA’s role in EPSP development

- During development of EPSPs:
 - MSA may provide advice, give guidance, or make recommendations to RoLR providers regarding their draft EPSPs [s. 5.1(2)(a)]
 - MSA may participate in the negotiation process for the EPSP [s. 5.1(2)(b)]

Rate of Last Resort Regulation – MSA's FEOC determination reports

- Before applying to its regulatory authority, RoLR providers must submit their final EPSP to the MSA [s. 3(7)]
 - MSA must then review the EPSP to determine whether it complies with requirements for a FEOC electricity market [s. 5.2(a)]
 - MSA must prepare a FEOC determination report on the EPSP [s. 5.2(b)]
- MSA will provide this FEOC determination report to the RoLR provider for inclusion in their RRT application [s. 3(2)(b)]
- A regulatory authority can only consider a RRT application that includes an MSA FEOC determination report [s. 6(1.1)]
- A regulatory authority is not required to follow any results or recommendations made by an MSA FEOC determination report [s. 6(1.2)]

Rate of Last Resort Regulation – MSA's FEOC determination reports

- RoLR providers are required to submit any records the MSA may request to perform its duties under the RoLR Regulation [s. 18.2]
- An EPSP that does not transparently illustrate how RoLR rates are calculated may prompt the MSA to issue an information request pursuant to section 18.2
- MSA expects RoLR providers will provide evidence to the MSA justifying why their EPSPs are consistent with FEOC
 - For the sake of efficiency and to avoid information requests, the MSA recommends RoLR providers submit such evidence at the time when advice is requested or when a final EPSP is submitted for a FEOC determination report

Rate of Last Resort Regulation – MSA's FEOC determination reports

- The length of time it will take the MSA to create a FEOC determination report is subject to the following:
 - complexity and/or novelty of the EPSP
 - whether sufficient evidence supporting the FEOC nature of the EPSP is provided to the MSA when the final EPSP is submitted
 - the number of concurrent requests for FEOC determination reports received by the MSA
- Evidence supporting the FEOC nature of the EPSP can include (but is not limited to):
 - qualitative and quantitative justifications for the risk margin component of the EPSP
 - qualitative: “Why the RoLR provider will reasonably face this risk”
 - quantitative: “Why the expected cost associated with this risk is X ¢/kWh or will result from the quantitative model used”
 - justification for why the quantitative model used will estimate the RoLR provider's expected costs

Rate of Last Resort Regulation – EPSP and RoLR rate setting timelines

- On/before December 2, 2024: RoLR rates must be set for the first term and submitted to the regulatory authority
- Prior to this date:
 - (optional but encouraged) RoLR providers may seek advice, guidance, recommendations from the MSA on any of their draft EPSPs
 - RoLR providers must construct RRT applications, including final EPSPs
 - RoLR providers must submit these final EPSPs to the MSA for a FEOC determination report
 - RoLR providers must then submit their RRT applications (with the MSA's FEOC determination report) to their regulatory authority for approval
 - following approval of a RoLR provider's EPSP, the EPSP will be used to set RoLR rates for the first term

Rate of Last Resort Regulation – Rate reopener

- Starting January 1, 2025, MSA will assess financial performance of each RoLR provider under their RRT and prepare a financial performance report (FPR) every 6 months, with the first to be completed by July 1, 2025 [s. 11.2(1)]
- MSA will establish parameters for “acceptable financial performance” and must consult on these parameters with affected persons [s. 11.2(3), 11.2(4)]
- Each FPR will assess:
 - RoLR providers’ financial performance [s. 11.2(2)(a)]
 - if RoLR providers’ financial performance is within acceptable parameters [s. 11.2(2)(b)]
 - any recommendation for a rate reopener [s. 11.2(2)(c)]
 - any other observations or recommendations relevant to the integrity of the RRT [s. 11.2(2)(d)]
- RoLR providers must submit information requested by the MSA at least one month prior to the preparation of the FPR [s. 11.2(5)]

Rate of Last Resort Regulation – Rate reopener

- If the FPR shows a RoLR provider's financial performance falls outside the parameters set by the MSA, the MSA must notify the regulatory authority [s. 11.2(6)]
- Regulatory authority must then initiate a public rate reopener proceeding within 30 days [s. 11.3(1)(a)]
- Within 30 days of reopener proceeding being initiated, the RoLR provider must submit the MSA's FEOC determination reports, FPRs, and any other relevant information to its regulatory authority [s. 11.3(2)]
 - must either justify the current rate or propose a new RoLR rate [s. 11.3(3)]

Rate of Last Resort Regulation – Rate reopener

- Interested parties that would be affected by the RoLR rate adjustment then have 30 days to provide comments [s. 11.3(4), 11.3(5)]
- Regulatory authority must decide on whether the RoLR rate requires adjustment within 90 days of receipt of RoLR provider's submission [s. 11.3(6)]
 - If the regulatory authority decides a RoLR rate adjustment is necessary, RoLR providers must submit to the regulatory authority within 30 days of this decision: [s. 11.3(7)]
 - a new EPSP, or
 - a RoLR rate adjustment
- A rate adjusted in accordance with a rate reopener proceeding is not limited by the 10% rate adjustment cap that would otherwise apply [s. 11.3(8)]

FEOC Principles – Fair

- To support fairness, an EPSP will produce RoLR rates reflective of cost causation and will not create unfair advantages to market participants. Subject to applicable legislation and regulation, the EPSP is expected to:
 - produce RoLR rates that are non-discriminatory, meaning:
 - it does not produce RoLR rates that are expected to generate a cross-subsidy among different types of identifiable RoLR customers with materially different cost profiles
 - it does not produce RoLR rates that are expected to generate an intertemporal cross-subsidy between two-year RoLR rate terms
 - produce RoLR rates only reflective of:
 - costs incurred or expected to be incurred by the owner to supply its RoLR customers with electric energy
 - any other costs incurred or expected to be incurred by the owner expressly allowed to be recovered under the *Rate of Last Resort Regulation*
 - not contemplate any form of participation in a market that could provide an unfair advantage or disadvantage to any participant in that market

FEOC Principles – Efficient

- To support efficiency, an EPSP will produce RoLR rates that reflect the RoLR Provider's expected or realized costs of providing electric energy to RoLR customers and will not distort prices in any market away from an efficient price. Subject to applicable legislation and regulation, the EPSP is expected to:
 - produce RoLR rates for each identifiable customer type that reflect the expected variable (per kWh) cost of providing electric energy to that identifiable customer type over a two-year period, accounting for:
 - prevailing forward market prices for the two-year term at the time of price-setting
 - the estimated expected value of any risks the owner reasonably expects to be exposed to by offering RoLR rates
 - provide the owner with a competitive rate of return
 - not produce RoLR rates that recover fixed/implementation costs incurred or expected to be incurred by the owner
 - not contemplate any form of participation in a market that distorts a market price away from an efficient price

FEOC Principles – Open Competition

- To support open competition, an EPSP will establish RoLR rates using prices established through competition and will not impede competition in a market. Subject to applicable legislation and regulation, the EPSP is expected to:
 - produce RoLR rates calculated using prices established in an openly competitive market or competitive procurement
 - not contemplate the creation or exacerbation of entry or exit barriers for RoLR customers
 - not contemplate any form of participation in a market that could impede open competition in that market

Rate re-opener stakeholder consultation

- The rate re-opener stakeholder consultation is a distinct process from the development of EPSPs
- MSA will begin its stakeholder consultation shortly
 - MSA has not yet begun discussions with any stakeholders regarding financial performance parameters
- Consultation will address a number of elements to establish the following:
 - The appropriate measure(s) of RoLR provider financial performance to be used by the MSA
 - The nature of data submissions to the MSA
 - The frequency of data submissions to the MSA
 - The nature of acceptable financial performance parameter
 - Other elements to be determined

MSA advice and path forward

- RoLR providers are strongly encouraged to begin engaging with the MSA on EPSPs if they have not already
- The MSA can:
 - Provide advice on draft EPSPs developed by RoLR providers
 - Provide advice to RoLR providers regarding concepts they have for EPSPs
 - Provide FEOC determination reports to RoLR providers who have finalized their EPSPs
- Please clarify whether you are submitting a draft EPSP for advice/guidance/recommendations, or a final EPSP for a FEOC determination report
- Submit any of the above to MSAStakeholderConsultation@albertamsa.ca

Questions

