

Supplemental Retail Market Report for Q2 2022

August 12, 2022

Taking action to promote effective competition and a culture of compliance and accountability in Alberta's electricity and retail natural gas markets

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THE QUARTER AT A GLANCE

- The regulated rate option (RRO) continued to lose residential customers in Q1 2022, facing a net decline of 24,000 customers (3.7%), up from a 21,000 decline in the previous quarter. The default rate tariff (DRT) experienced a net loss of 10,000 (2.0%) residential customers, down from the previous quarter but significantly higher year-over-year. These net declines were driven by increasing numbers of customers leaving regulated rates, as the number of residential customers joining the RRO and DRT remains at historic levels.
- Co-branded retailers are competitive retailers affiliated with a distributor or regulated rate supplier. Most residential customers on competitive retail rates have signed with a co-branded retailer. Co-branded retailers have had consistently lower churn rates than non-co-branded retailers. The share of competitive residential customers served by a co-branded retailer in their service area continues to increase.
- The expected costs to competitive retailers of providing fixed rate electricity contracts increased throughout most of Q2 2022, while the increases in the expected costs of fixed rate natural gas contracts throughout most of the quarter were largely erased with significant declines in natural gas futures prices in June.
- Competitive fixed rates increased considerably throughout Q2 2022. One major retailer ceased offering 1 and 3-year fixed rates and only continued to offer 5-year rates, which may have prompted competing retailers to begin offering 5-year rates. Another major retailer changed their pricing strategy considerably.
- As of July 2022, residential RRO customers continue to face significant financial incentives to switch to competitive fixed rates. Declines in natural gas prices in June lowered expected DRT rates going forward, significantly reducing the financial incentive for DRT customer switching to competitive fixed rates.
- Competitive variable rates are estimated to have exceeded regulated rates in most months of Q2 2022.
- Residential RRO rate estimates for the August 2022 to February 2023 period increased considerably over the quarter, with rate estimates over the period ranging from around 16 to 18 ¢/kWh. The billing impact of the expected RRO rate increases between August and December is more than offset by the \$50 billing credits received by customers over this period.
- Declines in natural gas futures prices as of July 6, 2022 drove declines in expected residential DRT rates over the October 2022 to March 2023 period. These declines were sufficiently large in magnitude as to bring expected DRT rates below the \$6.50/GJ natural gas rebate threshold.

1 QUARTERLY SUMMARY

Residential retail customers can choose from several retail energy rates. By default, retail customers are on regulated energy rates, which vary monthly and by distribution service area.

Alternatively, customers may sign with a competitive retailer. Competitive retailers typically offer both fixed and variable energy rates. Fixed energy rates are typically set for a period between one and five years, while competitive variable energy rates vary monthly.

Continuing RRO trends observed for the past year, residential RRO rates increased in Q2 2022 relative to the previous year. RRO rates averaged 10.88 ¢/kWh across the four major service areas in Q2 2022 (Table 1).

Average competitive variable electricity rates were 11% higher in Q2 2022 compared to the previous year, though without a significant month-to-month increase as experienced in June 2021.

Significant increases in natural gas prices throughout Q2 2022 drove both residential DRT rates and competitive natural gas rates to double year-over-year, averaging \$6.58/GJ and \$7.86/GJ respectively.

Table 1: Monthly retail market summary for Q2 (residential customers)

| | | 2022 | 2021 | Change |
|--|-----------|--------------|--------------|--------------|
| RRO (Avg ¢/kWh) | Apr | 10.63 | 8.78 | +21% |
| | May | 10.32 | 7.52 | +37% |
| | Jun | 11.70 | 6.99 | +67% |
| | Q2 | 10.88 | 7.76 | +40% |
| DRT (Avg \$/GJ) | Apr | 4.59 | 2.78 | +65% |
| | May | 6.44 | 3.24 | +99% |
| | Jun | 8.70 | 3.29 | +164% |
| | Q2 | 6.58 | 3.11 | +112% |
| Competitive Variable Electricity Rate (Avg ¢/kWh) | Apr | 12.79 | 10.12 | +26% |
| | May | 13.56 | 10.07 | +35% |
| | Jun | 14.62 | 16.79 | -13% |
| | Q2 | 13.66 | 12.30 | +11% |
| Competitive Variable Natural Gas Rate (Avg \$/GJ) | Apr | 7.56 | 3.65 | +107% |
| | May | 8.19 | 3.93 | +108% |
| | Jun | 7.84 | 4.23 | +85% |
| | Q2 | 7.86 | 3.94 | +100% |
| Expected Cost, 3-Year Fixed Electricity Contract (Avg ¢/kWh) | Apr | 8.19 | 6.27 | +30% |
| | May | 8.93 | 6.41 | +39% |
| | Jun | 9.30 | 6.71 | +39% |
| | Q2 | 8.80 | 6.46 | +36% |
| Expected Cost, 3-Year Fixed Gas Contract (Avg \$/GJ) | Apr | 4.76 | 2.50 | +90% |
| | May | 5.22 | 2.56 | +104% |
| | Jun | 5.44 | 2.71 | +101% |
| | Q2 | 5.14 | 2.59 | +98% |

The expected cost of providing 3-year fixed rate electricity and natural gas contracts increased significantly in Q2 2022 with increases in power and natural gas futures prices. Expected cost increases were especially prominent for natural gas, which saw expected costs almost double.

2 RETAIL CUSTOMER MOVEMENTS

The MSA collects and tracks retail switching data on a one-quarter lagged basis. As such the discussion in this section is largely focused on retail switching in and prior to Q1 2022.

2.1 Overview

Retailer churn is defined as the number of customers that leave a retailer within a given month expressed as a percentage of a retailer's end-of-month customers. Higher retailer churn rates may be desirable for retail markets to the extent it reflects an active customer base.

In its Supplemental Retail Market Report for Q1 2022 the MSA reported on increasing residential RRO churn observed in 2021.¹ This trend has continued into 2022.

Most retail customers that leave their regulated retailer are expected to have signed a contract with a competitive retailer. The MSA has observed that a significant share of these new residential competitive retail customers have chosen to sign with a co-branded electricity retailer: a competitive retailer affiliated with and branded similarly to a regulated retailer or distributor in a customer's service area.

While co-branded retailers have historically held a majority market share of residential competitive retail customers, since Q3 2021 co-branded electricity retailers have gained new customers at a rate in excess of their prevailing market share. Former regulated retail customers may be driving this trend.

Significantly large co-branded retailer market shares may have an adverse affect on retail energy markets. Co-branded retailers have had lower residential customer churn rates compared to other competitive retailers since 2016. Although many factors have likely caused this difference in churn rates, to the extent it reflects a lack of customer awareness of other competitive retailers, or lack of trust in the reliability of competing retailers' energy supply, the difference in churn may indicate that residential co-branded retail customers are less willing to switch to other competitive retailers for reasons other than prices or quality, with long-term implications for competition in the retail markets.

2.2 Regulated retailer customer losses

The RRO residential customer base fell by approximately 24,000 customers in Q1 2022 (4% of its Q4 residential customer base), while the DRT residential customer base fell by approximately 10,000 customers (2% of its Q4 residential customer base).

The RRO customer base has declined at an ever-increasing rate since Q2 2021 (Figure 1), with the Q1 2022 losses the highest observed in recent years. The high net losses observed in Q1 2022 were due to both fewer new customers joining the RRO compared to the previous quarter

¹ [Supplemental Retail Market Report for Q1 2022](#), May 13, 2022.

(typical for Q1) and an equivalent number of RRO customers leaving the RRO as in Q4 (Figure 2).

Figure 1: RRO customer net losses, Q1 2020 to Q1 2022 (residential customers)

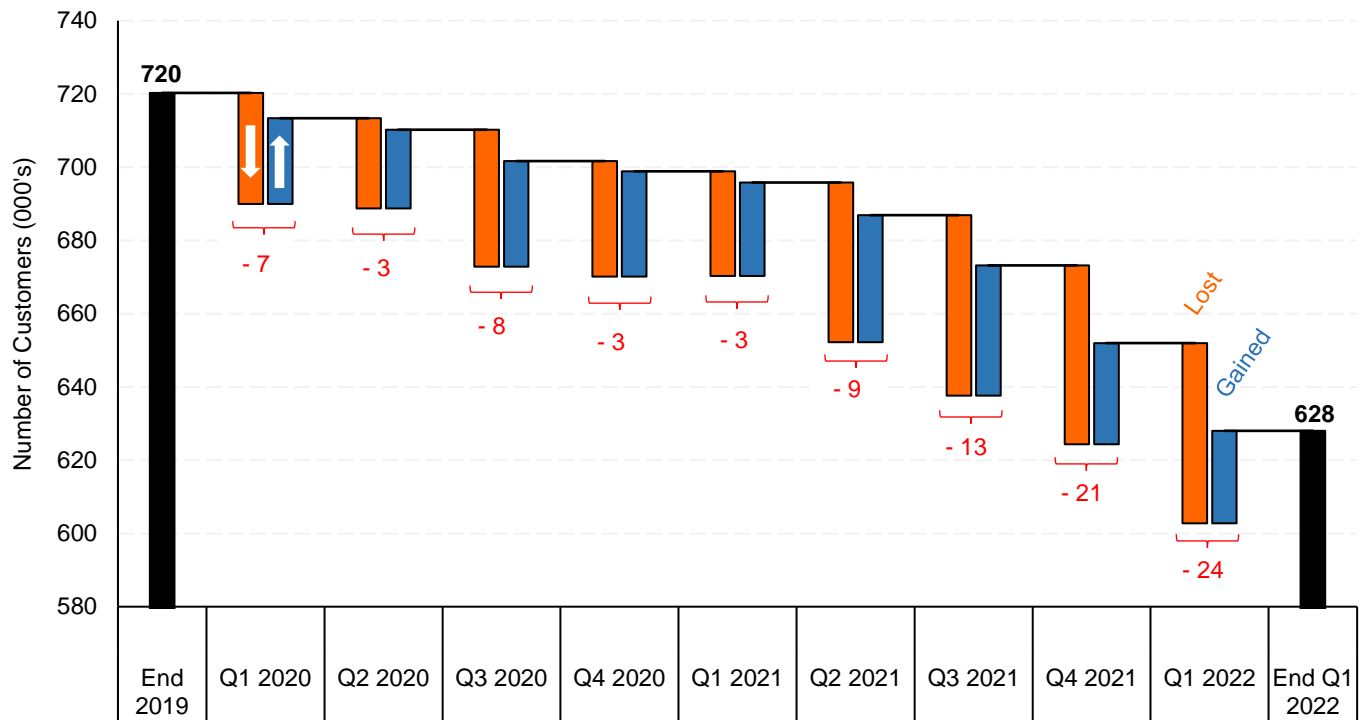
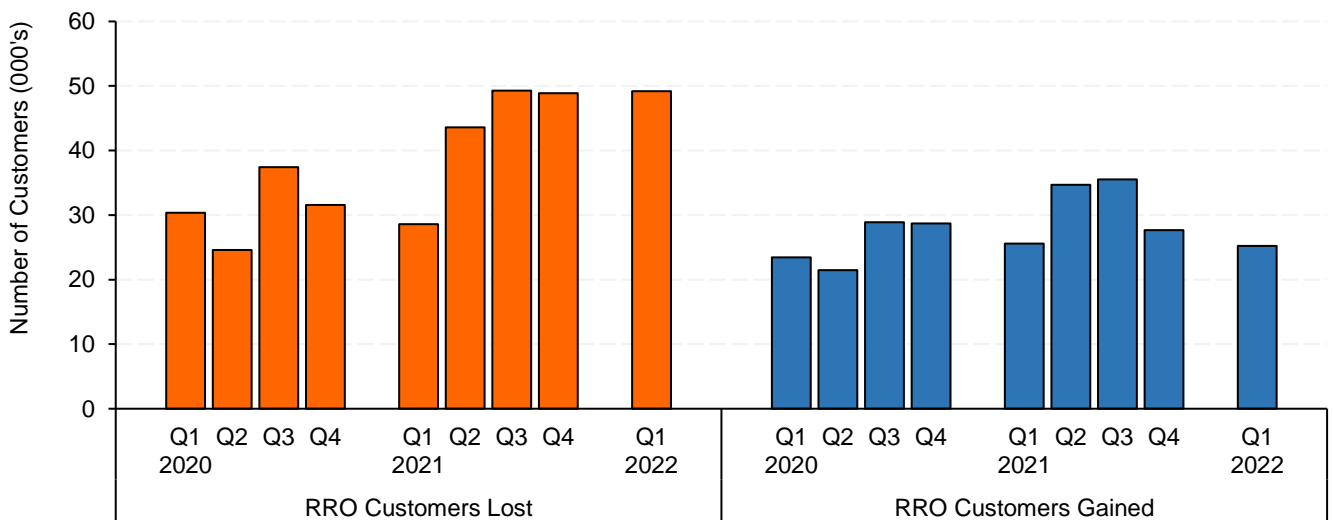


Figure 2: RRO customer losses & gains, Q1 2020 to Q1 2022 (residential customers)



Q1 2022 RRO customer gains are similar to those in Q1 2020 and Q1 2021. As residential RRO rates in Q1 of 2020 and 2021 were significantly lower than those in Q1 2022,² the relatively

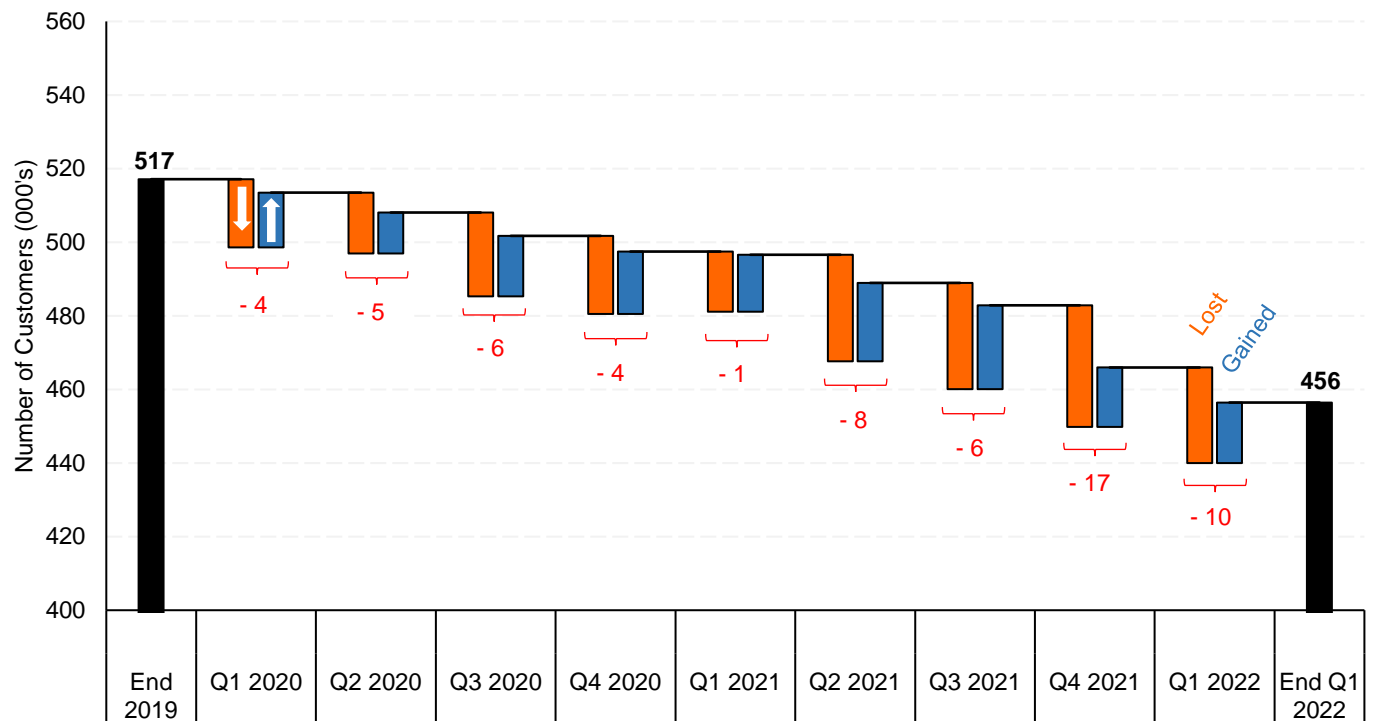
² 7.71 ¢/kWh and 7.97 ¢/kWh in Q1 2020 and Q1 2021, compared to 14.31 ¢/kWh in Q1 2022.

constant year-over-year change in RRO customer gains may indicate that retailer customers who switched to the RRO did so out of necessity. This could be the case if such customers are only joining the RRO for a short period of time (for example, if a customer changes their residence), or if these new RRO customers have no other retailer options available to them, which could occur if a customer has poor credit or is dropped by their previous retailer for non-payment.

Although residential RRO customer losses did not significantly change quarter-over-quarter, this is not typical as customers have historically switched retailers at a relatively low rate early in the year. The lack of quarterly change in RRO customer losses suggests that increased news coverage of rising RRO rates and retail electricity topics in Q1 may have more than made up for the typical seasonal decline in RRO customer losses.³

While the residential DRT customer base has also experienced relatively pronounced declines in recent quarters (Figure 3), such declines have been lower than those for the residential RRO customer base.

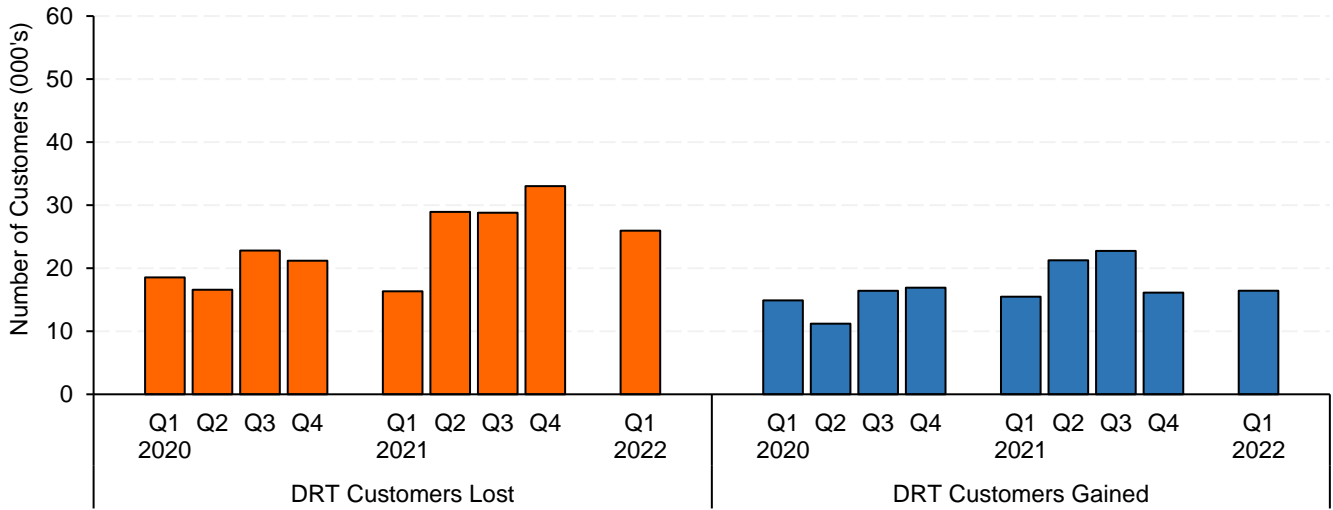
Figure 3: DRT customer net losses, Q1 2020 to Q1 2022 (residential customers)



Q1 2022 saw typical levels of new DRT residential customers and around 7,000 to 8,000 more residential customers leaving the DRT than has occurred in Q1 of previous years (Figure 4).

³ One news organization ran a [series of special articles](#) over Q1 and Q2 2022 on various topics relating to the Alberta retail energy markets.

Figure 4: DRT customer losses & gains, Q1 2020 to Q1 2022 (residential customers)

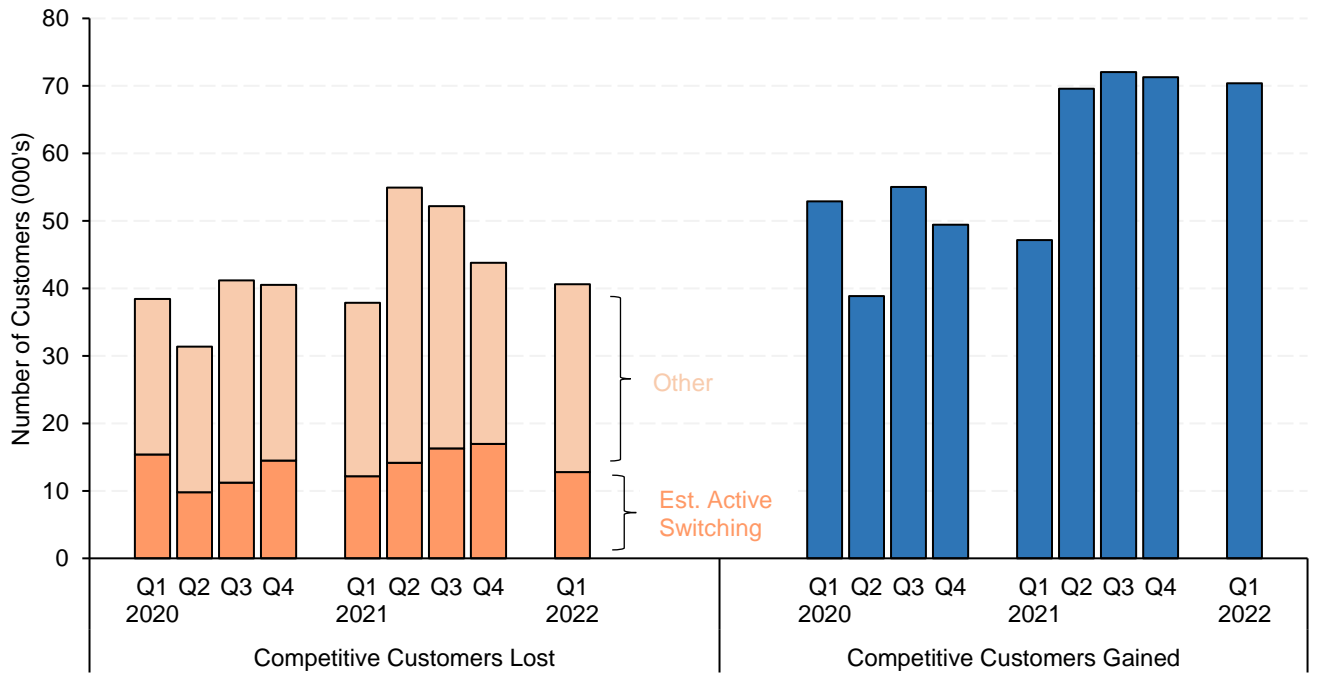


2.3 Competitive retailer customer gains

Competitive electricity retailers continued to gain significant numbers of residential customers in Q1 2022, estimated at 70,000 residential customers, consistent with the previous three quarters (Figure 5). Low active switching⁴ numbers among residential competitive retail customers suggests most of these new customers were former RRO customers.

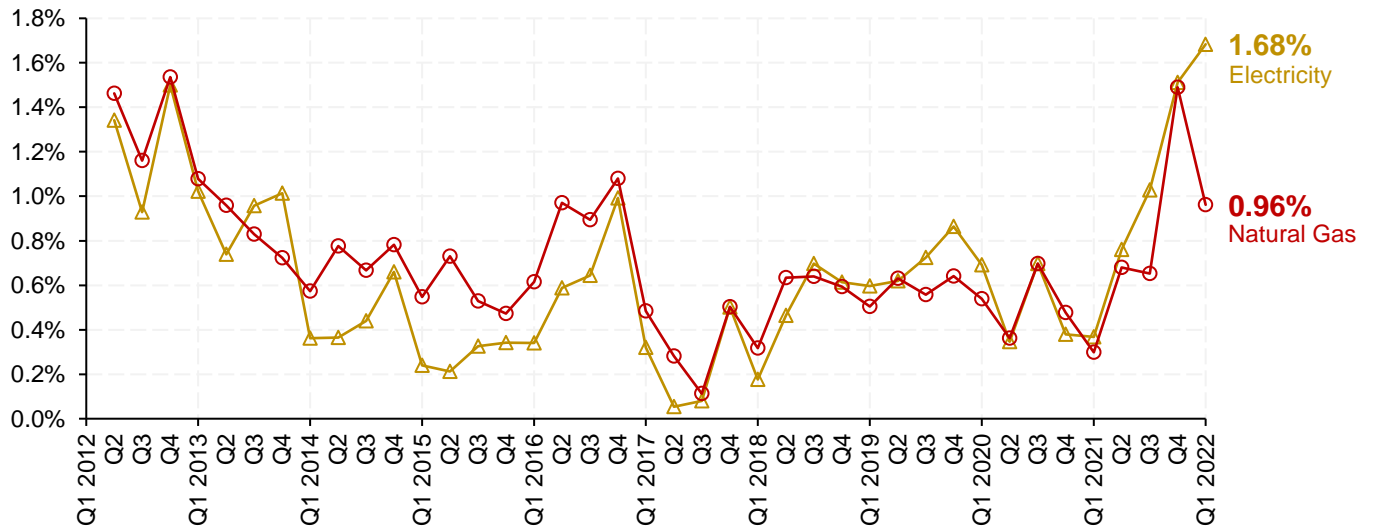
⁴ The MSA began tracking estimated active switching in its [Supplemental Retail Market Report for Q1 2022](#). Estimated active switching is defined as the number of customers leaving a retailer *without* including dropped customers or customers that moved sites. This statistic may better approximate the number of competitive residential customers that choose to switch retailers for reasons related to the retailer or rates themselves.

Figure 5: Competitive electricity customer losses & gains, Q1 2020 to Q1 2022 (residential customers)



Competitive market shares for both residential electricity and natural gas customers continued to increase in Q1 2022, with the residential competitive electricity market share increasing by 1.7% over the quarter – the highest quarterly competitive market share change observed by the MSA since 2012 (Figure 6). The residential competitive natural gas market share increased by around 1% over the quarter, a lower gain compared to the previous quarter but consistent with seasonal declines in natural gas switching seen in the first quarter of most years.

Figure 6: Quarterly change in competitive retail customer share, 2012 to 2022 (residential customers)



While competitive retail market shares increased in all major service areas in Q1, increases were greatest in service areas with lower competitive retailer customer shares such as the EPCOR, FortisAlberta and Apex service areas (Table 2).

Table 2: Competitive shares by service area (residential customers)

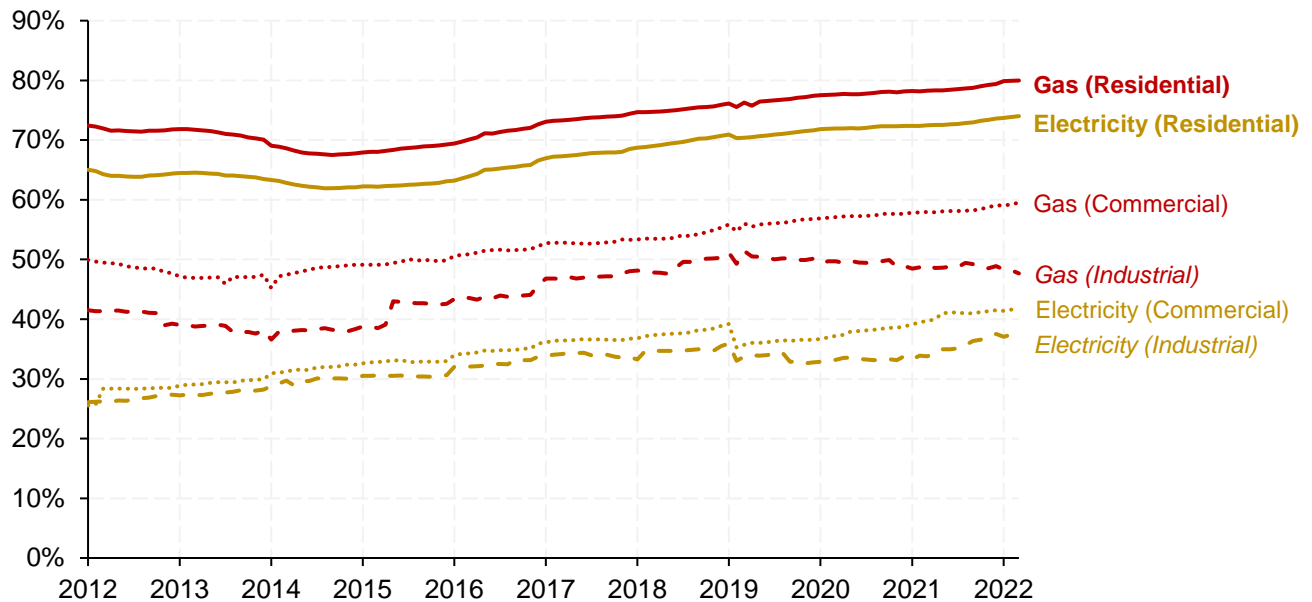
| | ENMAX | EPCOR | FortisAlberta | ATCO |
|---------------------------------------|--------------|--------------|----------------------|--------------|
| Change (Q4 2021) | 1.1% | 2.0% | 1.8% | 0.8% |
| Change (Q1 2022) | 1.4% | 2.2% | 2.0% | 1.0% |
| <i>Competitive Share (March 2022)</i> | <i>74.6%</i> | <i>47.6%</i> | <i>54.7%</i> | <i>58.7%</i> |

| | ATCO Gas North | ATCO Gas South | Apex |
|---------------------------------------|-----------------------|-----------------------|--------------|
| Change (Q4 2021) | 1.7% | 1.3% | 1.5% |
| Change (Q1 2022) | 1.1% | 0.7% | 1.2% |
| <i>Competitive Share (March 2022)</i> | <i>59.9%</i> | <i>71.8%</i> | <i>34.4%</i> |

2.4 Co-branded competitive retailers

Switching data indicates a significant majority (over 70%) of residential competitive retail customers are signed up with a retailer affiliated with and branded similarly to a regulated retail or distribution affiliate in their service area (Figure 7). These retailers are referred to as co-branded retailers. Co-branded retailers differ in each service area and sometimes within service areas depending on the area's distributors and regulated rate suppliers for electricity and natural gas.

Figure 7: Estimated market shares of co-branded competitive retailers among all competitive retailers (all service areas)⁵



Retail customers may sign with a co-branded retailer for several reasons. As affiliates of regulated entities, co-branded retailers may obtain significant local brand recognition by using a similar name and/or logo as their regulated affiliate. Such branding power may be especially influential among customers that do not know their retail market options; for example, customers that perceive their distributor or regulated rate provider as their “local energy utility” may only approach their co-branded affiliate to access competitive energy rates. Customers that are not informed about the market may also perceive energy provided by a co-branded retailer as more reliable than energy provided by a non-co-branded retailer if that retailer is affiliated with a distributor.

Co-branded competitive retailers may also have advantages in scale over other retailers. Co-branded retailers may be able to leverage existing customer service assets, and the relatively large size of such companies may provide them with better access to forward markets, which in turn may improve the competitiveness of the rates offered to customers. Furthermore, a non-co-branded retailer in one area may benefit from the scale associated with being co-branded elsewhere in Alberta.

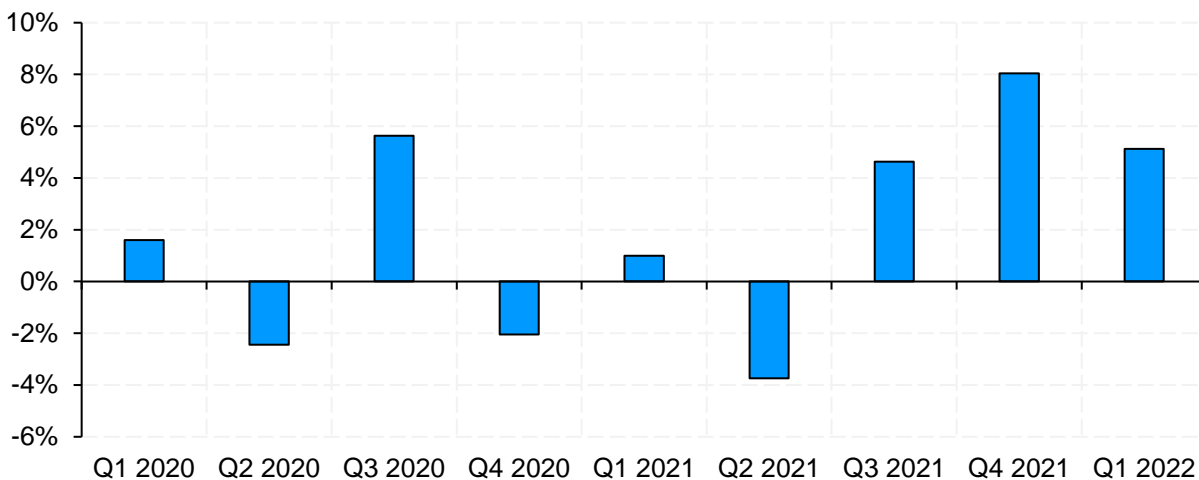
Co-branded retailers have had significantly greater success with residential customers than with commercial or industrial customers. This could reflect commercial and industrial retail customers having a greater incentive to investigate different retailers or specialized retail products. Co-branded retailers have also had greater success among natural gas customers of all customer types compared with electricity customers, which may reflect greater access to natural gas futures

⁵ In determining a competitive retailer’s ‘co-branded’ status, the MSA assessed retailers’ affiliation status at a service-area level. A retailer that is categorized as ‘co-branded’ in one service area may not be categorized as ‘co-branded’ in a different service area if they are not affiliated with a regulated retailer or distributor in that area.

markets, or a greater willingness of single-commodity electricity customers to investigate retail options outside of known co-branded retailers.

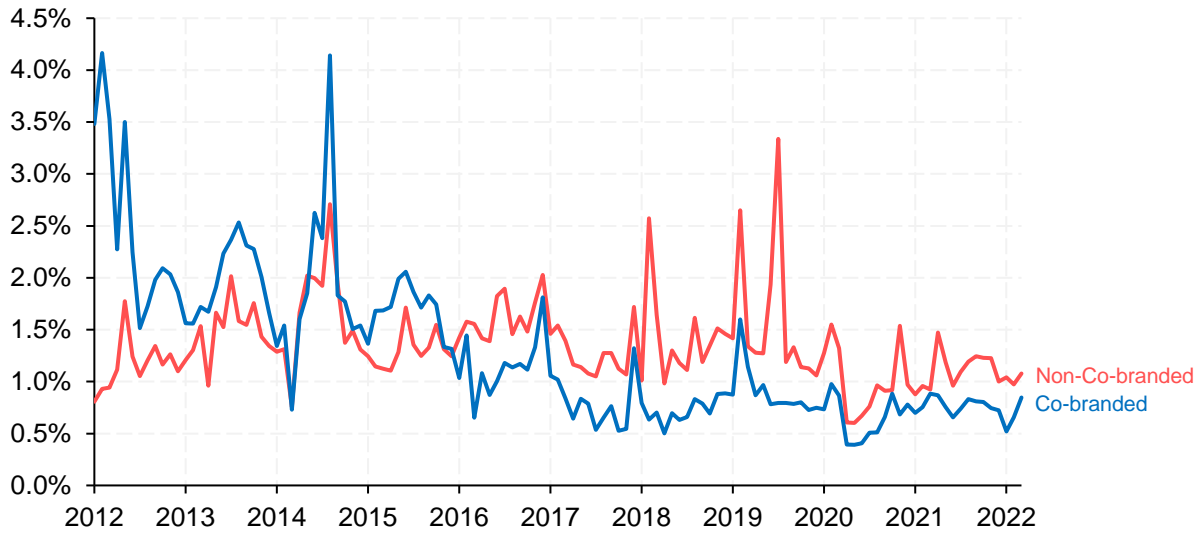
The MSA expects co-branded competitive retailers would gain a significant majority of customers switching from regulated energy products based on the current market shares of co-branded competitive retailers. This is particularly notable as such switching has grown in the previous three quarters. The MSA has observed residential RRO customers switching to co-branded competitive retailers over non-co-branded retailers at a rate somewhat higher than would be expected by the market share of co-branded electricity retailers (Figure 8). For example, in Q4 2021, the MSA estimates that co-branded retailers gained 8% more residential customers switching from the RRO than expected based on co-branded retailer market share.

Figure 8: RRO switches to co-branded electricity retailer above expectation (residential customers)



Since 2016, residential electricity and natural gas churn rates for co-branded competitive retailers have been consistently lower than churn rates for non-co-branded retailers (Figure 9, Figure 10).

Figure 9: Competitive electricity retailer churn rate, co-branded vs. non-co-branded, residential customers⁶

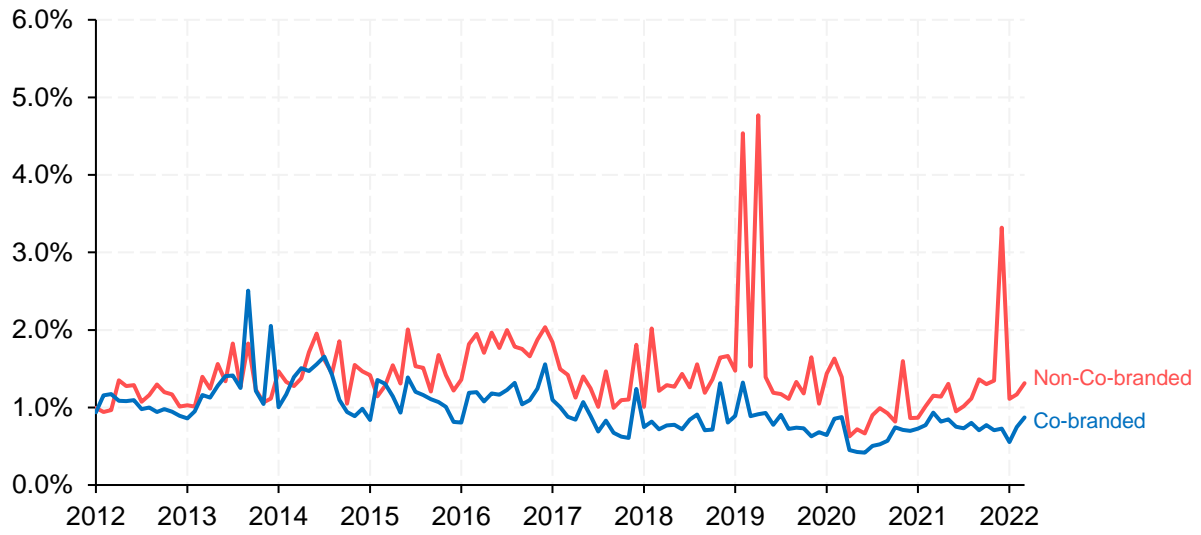


Several factors may drive this result. As noted above, co-branded retailers may have better access to forward markets than some retailers without co-branding advantages anywhere in the province, which in turn may enable them to offer better renewal prices to existing customers, limiting their churn compared with non-co-branded retailers. Co-branded retailers may also be able to leverage investments in customer service to prevent the loss of customers to other retailers.

Moreover, to the extent that some co-branded retail customers believe that their retailer is the only or most reliable power provider in their area, they may be less inclined to look for other options and leave their existing retailer. These 'sticky' customers would be expected to be price insensitive, contributing to a less competitive retail market.

⁶ The MSA notes that periods of *significant* month-to-month increases in churn among non-co-branded retailers are associated with discrete events pertaining to particular retailers and are not reflective of broader trends among non-co-branded retailers.

Figure 10: Competitive natural gas retailer churn rate, co-branded vs. non-co-branded, residential customers



3 COMPETITIVE RETAIL

3.1 Fixed rate contracts

Some competitive retailers made significant changes to their fixed rate offerings over the quarter. Fixed rate contract prices increased in Q2 2022 alongside increases in the expected costs of fixed rate contracts. These expected cost increases were particularly significant for contracts with shorter term lengths, reflecting a greater appreciation in near-term forward prices than forward prices many years out.

Retailers face uncertainty over the costs of providing fixed rate contracts. Some retailers may purchase forward market hedges to reduce this uncertainty. Other retailers may be affiliated with a generator, so the company's retail obligations and generation act as mutual hedges. Some retailers without significant access to the forward market or generation assets may simply look to the forward market to gain an understanding of future prices expected by the market.

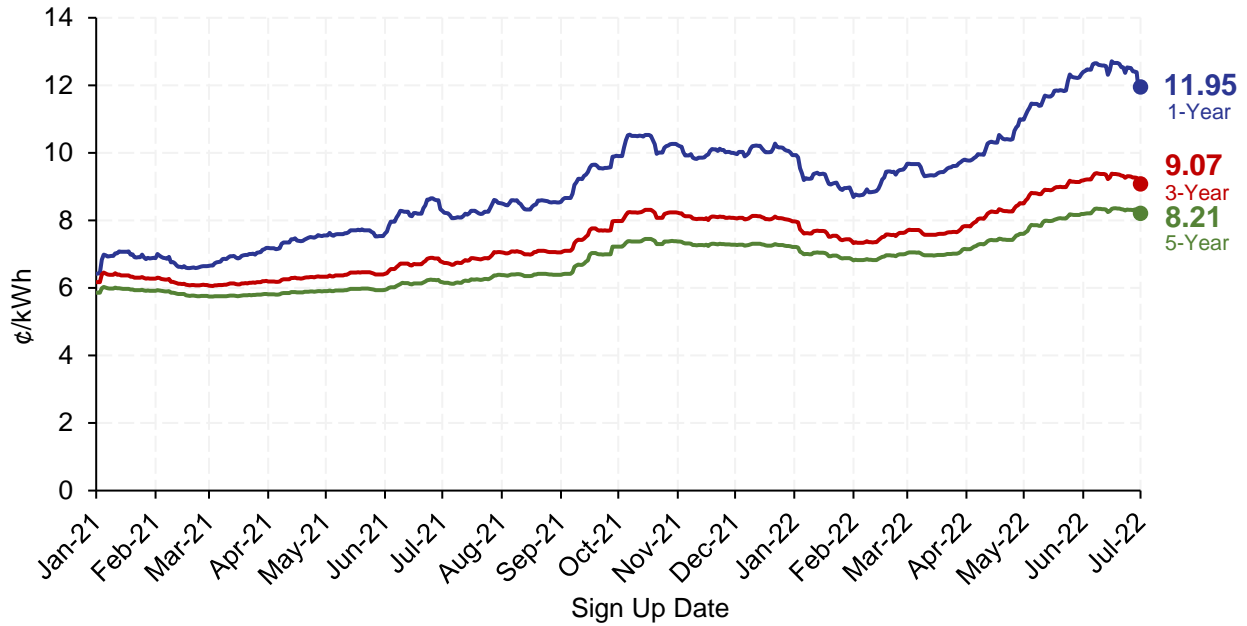
Notably, all retailers face an opportunity cost in forward market trading; hedges purchased at relatively low prices can be resold later in the forward market if more favourable prices prevail, while any generation held by a retailer's affiliate can itself be hedged through forward trading. As such, the MSA views forward prices as fundamental to a retailer's costs and its fixed rate pricing decisions.

The expected costs⁷ of residential fixed rate electricity and natural gas contracts have generally increased since 2021. In Q2 2022 the expected cost increases were particularly large, following significant rises in forward prices.

Fixed rate electricity expected costs ended Q2 at multi-year highs, with 1-year expected costs reaching almost 12 ¢/kWh by July 1, 86% higher than the expected cost of such a contract at the start of 2021 (Figure 11). For 3 and 5-year contracts the expected cost increases were more muted, which primarily reflects the expected impact of additional generation capacity scheduled to come online in over the next few years. That said, it is notable that forward power prices more than a year into the future may be partially reflective of a less liquid market for long-term contracts.

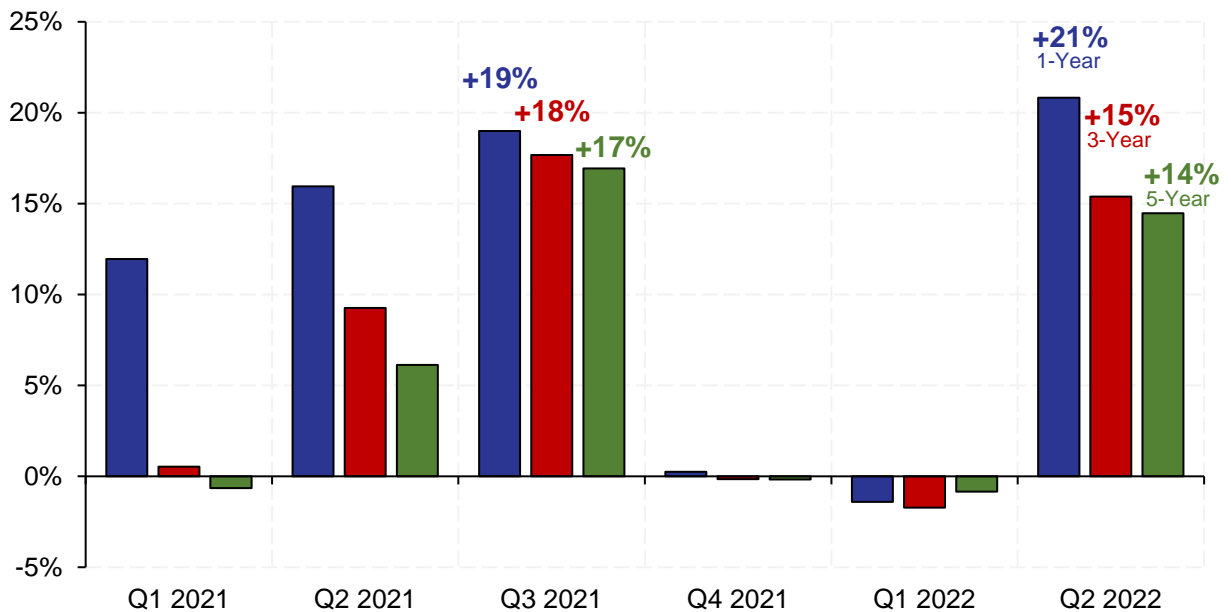
⁷ The expected cost of a retail contract is the average energy cost a retailer can expect to incur to serve a customer over the length of the contract. On any given day (the "sign up date"), the expected cost of a contract is calculated based on forward market prices for delivery periods spanning the length of the contract period as of that day, weighted by the average intra-day and seasonal load shapes of the customer type. Expected costs change over time based on changes in forward market prices and incremental changes in the delivery period (a 1-year contract offered on January 1, 2021 will have a delivery period distinct from a 1-year contract offered on January 1, 2022).

Figure 11: Expected cost, fixed rate electricity contract (residential customer), January 2021 to July 2022



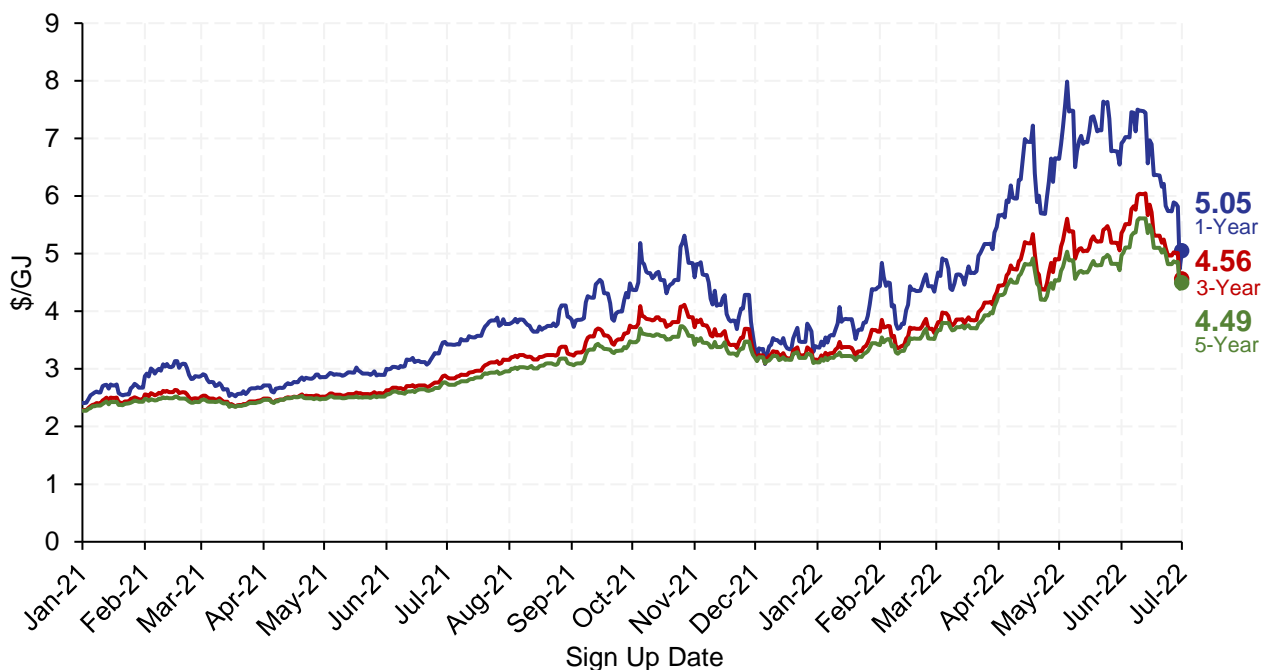
Significant increases in expected costs for fixed rate electricity over Q2 2022 broke the trend of relatively low quarter-over-quarter changes in expected cost seen over the previous two quarters, with expected cost changes over Q2 substantively in line with increases over Q3 2021 (Figure 12).

Figure 12: Quarterly change in fixed rate electricity contract expected costs (residential customer), Q1 2021 to Q2 2022



While expected costs for fixed rate electricity products increased consistently over Q2 2022, with only moderate declines experienced in the second half of June, natural gas expected costs increased significantly within the quarter, before falling materially in the second half of June due to declining natural gas futures (Figure 13). At their peak, expected costs for 1, 3, and 5-year natural gas contracts increased by between 31% and 41% within the quarter, but ended the quarter down 11% and up 3% and 5% (respectively).

Figure 13: Expected cost, fixed rate natural gas contract (residential customer), January 2021 to July 2022



The MSA has reported on competitive rate offerings by major retailers since its Q2 2021 report.⁸ Among its observations made in various reports, the MSA has noted two groupings of rate offerings in the fixed rate competitive retail market: one set of rates clustered at relatively low prices, and another set of rates priced significantly higher. This changed in Q2 2022, and particularly at the beginning of Q3 2022, when electricity (Figure 14) and natural gas (Figure 15) residential fixed rate offerings began to diverge significantly among formerly low-priced retailers.

Many factors have likely driven this result. One retailer (Retailer A) that had previously offered 1, 3, and 5-year electricity and natural gas contracts stopped offering 1 and 3-year contracts at the beginning of May 2022. In the two months that followed this change, two other retailers (Retailers B and C) increased their 1-year rates by large amounts. As Retailers A, B and C formerly offered similar fixed rates, Retailer A's departure from the 1 and 3-year fixed rate products may have decreased the competitive pressure on other retailers for these contract lengths.

⁸ [Quarterly Report for Q2 2021](#), August 13, 2021.

The significant increase in expected costs over most of the quarter may have played a role in both Retailer A's decision to exit the 1 and 3-year fixed rate markets, and other retailers' decisions to increase their rates later in the quarter. Retailers may not instantly change their rates in response to changes in expected costs because these costs change frequently and they must consider factors such as their competitive position, and would have to adjust their billing systems, advertising, and customer service guidance.

Retailers may also elect to manage any increased price risk stemming from changes in expected cost by procuring forward market hedges and incorporating such costs into their rate offerings. This may explain why many retailers' offerings have often been below expected cost as forward market prices have increased over the previous year.

Retailer A's focus on only offering 5-year fixed rates as of May 2022 may have also encouraged greater competition in the 5-year product. In mid-May 2022, Retailer C and D both began offering 5-year rates. Other retailers can only compete with Retailer A by also offering 5-year fixed rates or by offering much more appealing rates for other term lengths. As 5-year rates are typically priced the lowest, given their lowest expected cost, the latter is made much more difficult for most competing retailers, likely leading to the new retailer entries into 5-year rates observed in Q2.

One retailer – Retailer B – offered 1, 3, and 5-year rates at the same energy rate each month until June 2022, when it began offering different rates for different terms as done by most other retailers. This coincided with material price increases for the 1 and 3-year products offered by Retailer B.

Many retailers allow existing customers to switch to a different energy rate offered by the retailer within the term of their existing contract. Such allowances may be at no additional cost to the customer, or the retailer may charge the customer a fee for changing energy rates within their term (notwithstanding the lack of retailer exit fees the customer may face when departing the retailer with sufficient notice). It is not clear if significant numbers of customers are aware of this feature or have taken advantage of it.

Retailer E is a notable exception among the competitive retailers in their fixed rate pricing over Q2 2022. Where other retailers increased their rate offerings, particularly in May and June, Retailer E did not increase the price of its two fixed rate offerings for 1 and 3-year electricity between February and July. With the changes in rates offered by its competitors, Retailer E's fixed rates in these two product categories became the lowest rates offered by major retailers.

Figure 14: 1, 3, 5-year fixed rate electricity contract prices, residential customers, ENMAX service area (Jan 1, 2022 to July 1, 2022)

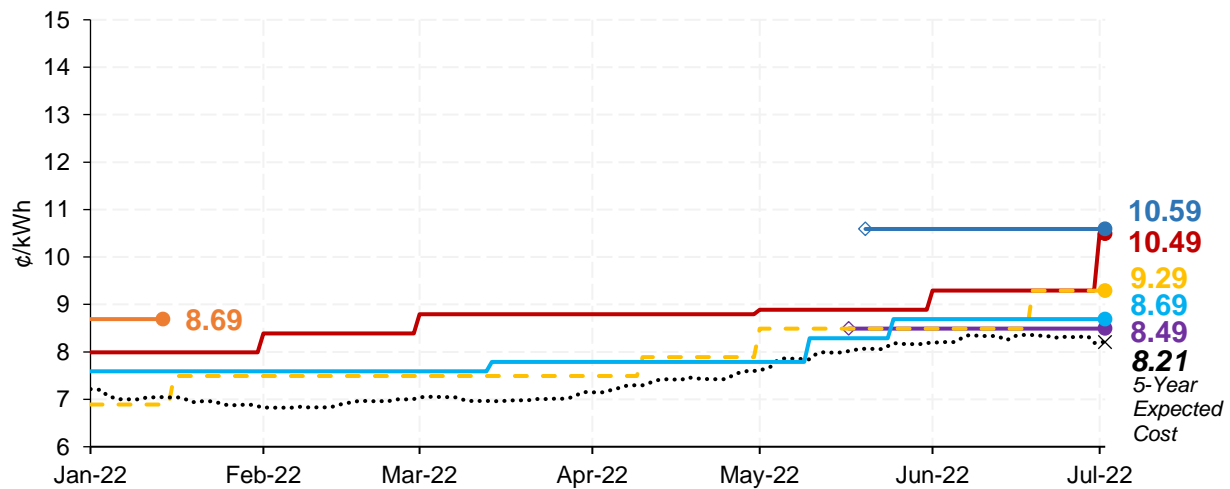
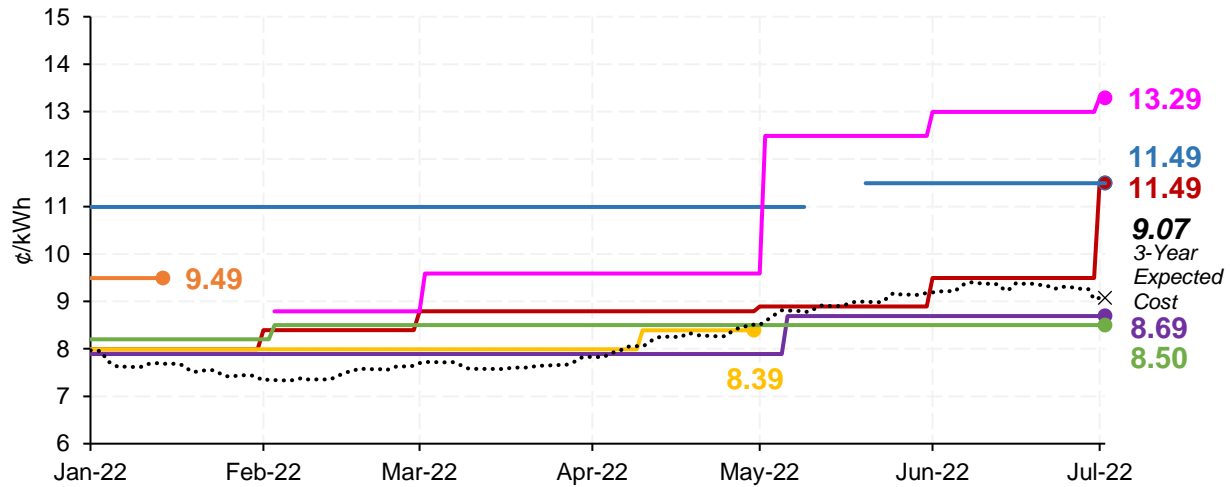
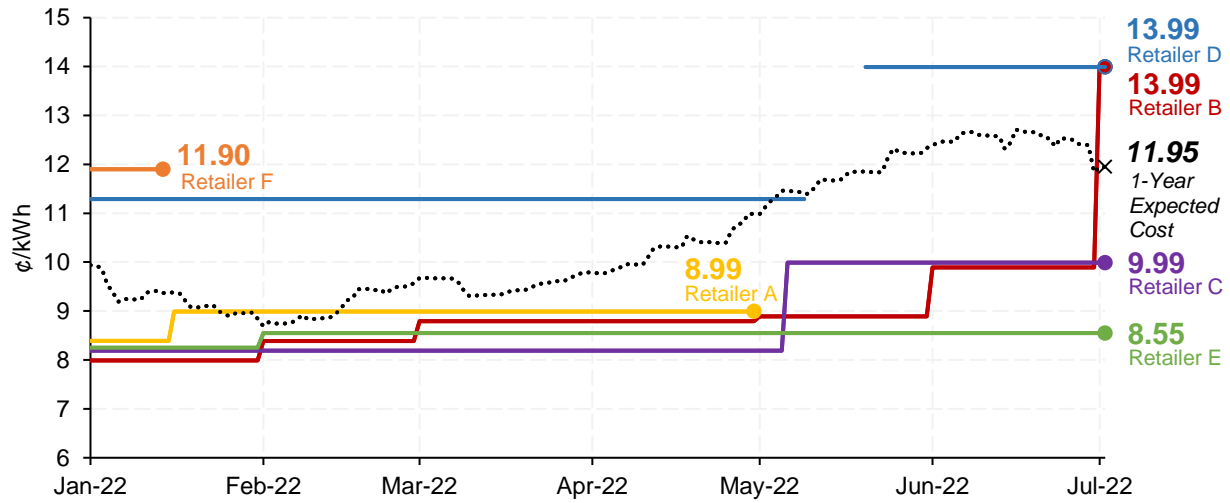
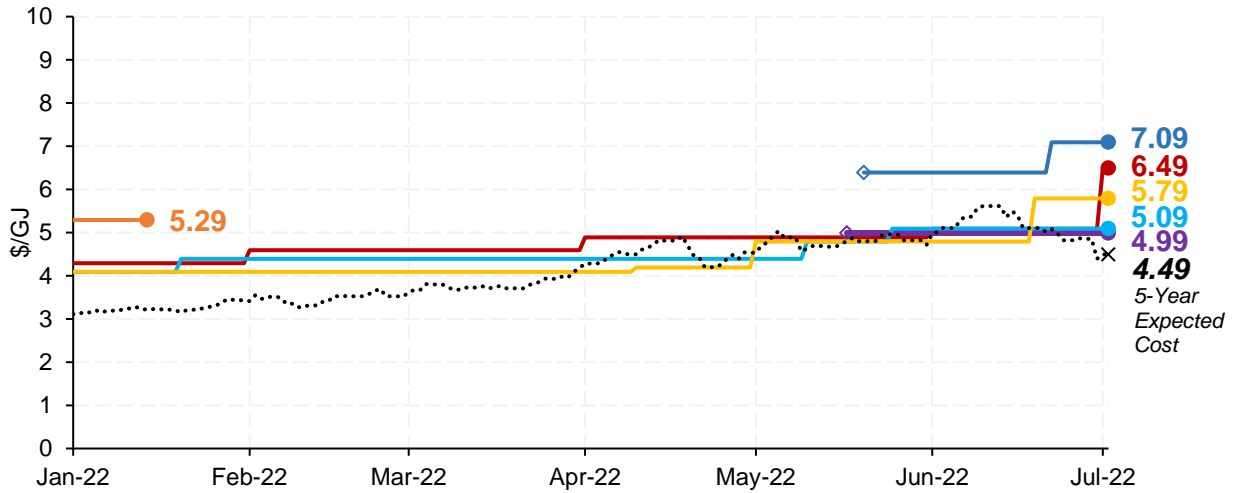
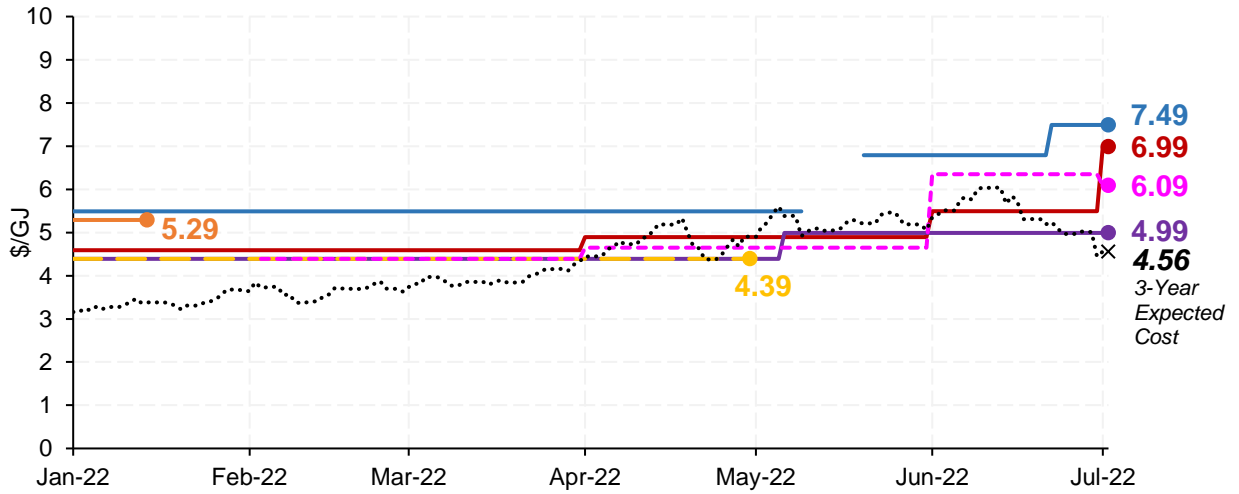
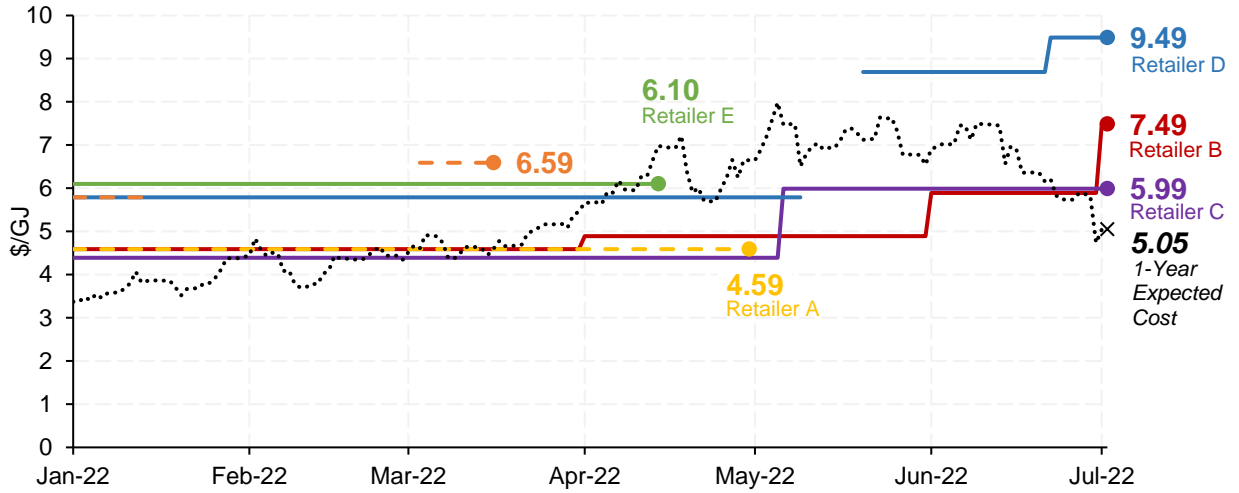


Figure 15: 1, 3, 5-year fixed rate natural gas contract prices, residential customers, ATCO Gas South service area (Jan 1, 2022 to July 1, 2022)



3.1.1 Retailer announcement

One retailer (Retailer F in Figure 14 and Figure 15) stopped offering fixed rate electricity and natural gas products in Q1 2022. In Q2, this retailer announced that it may declare bankruptcy as a result of both the COVID-19 pandemic and energy price increases since 2021. Going forward, this retailer has established an affiliate retailer with a competing retailer to maintain the retailer's brand and provide a degree of continuity for existing customers.

The MSA expects many retailers have experienced some degree of financial difficulty over the past year. Retailers with large numbers of customers on fixed rates prior to 2021 have faced relatively high real-time energy costs since 2021 but may receive much lower revenues from retail customers based on the lower energy rates previously established. Retailers may respond to such financial challenges by purchasing electricity and/or natural gas hedges to offset any additional cost increases.

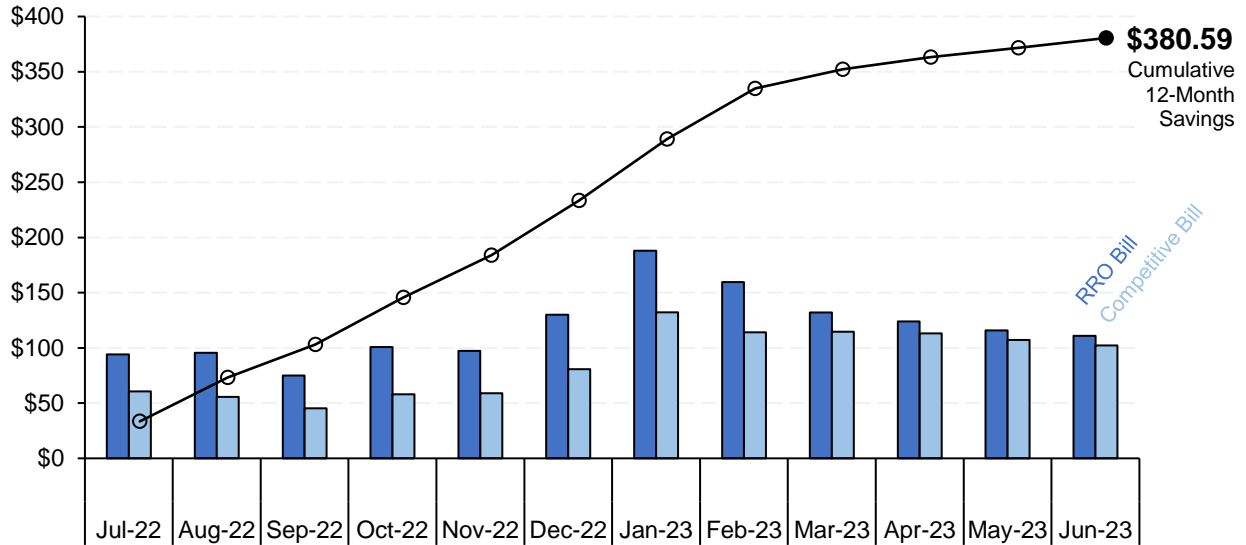
3.1.2 Switching incentives⁹

Had residential regulated retail customers on regulated rates switched to the lowest major retailer competitive rates on April 1, 2022 (among those shown in Figure 14 and Figure 15), they could have saved on their energy bills over Q2 2022. Switching to the lowest prevailing 3-year electricity rate offered by a major retailer (7.89 ¢/kWh at \$6.99/month in administration fees) would have yielded an average electricity bill savings of \$43 over the quarter (around \$14/month), while switching to the lowest prevailing 3-year natural gas rate (\$4.39/GJ at \$6.99/month) would have yielded an additional \$44 in savings (around \$15/month).

Looking to the future, significant 12-month switching incentives exist for residential RRO customers, while more limited switching incentives exist for residential DRT customers. If a residential RRO customer were to switch to a 3-year electricity contract offered on July 1 by a major retailer at 8.50 ¢/kWh and \$6.50/month, forward market prices suggest they would save an average of \$32/month over the next 12 months, for a total of about \$381 (27%) in savings over the RRO (Figure 16).

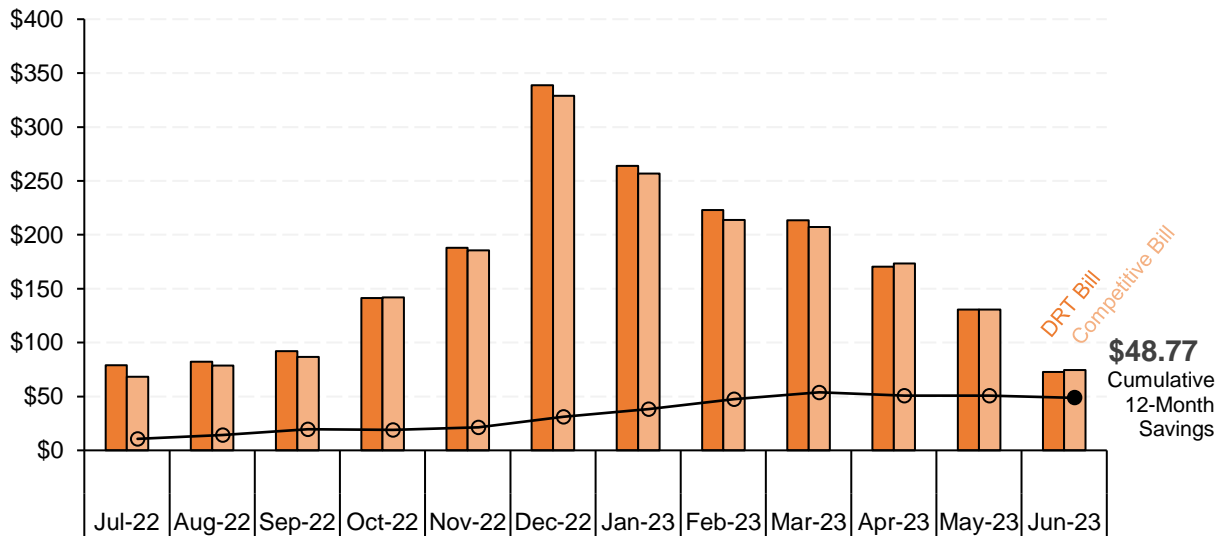
⁹ The discussion of switching incentives in this section is limited to residential customers in the ENMAX and ATCO Gas South service area. However, as RRO and DRT rates across service areas are largely similar and energy consumption is higher in comparatively rural service areas, the conclusions in this section are generally applicable to residential customers in all service areas.

Figure 16: Expected RRO bill vs. competitive electricity bill (3-year fixed rate at 8.50 ¢/kWh, \$6.50/month)¹⁰



However, residential DRT customers have a much smaller incentive to switch to a competitive natural gas retailer as of July 1, 2022 (Figure 17). A residential DRT customer switching to the lowest priced 3-year natural gas rate as of July 1 (\$4.99/GJ at \$6.99/month) could only expect to save about \$49 (2.4%) over the following 12 months, or \$4 in savings per month.

Figure 17: Expected DRT bill vs. competitive natural gas bill (3-year fixed rate at \$4.99/GJ, \$6.99/month)¹¹



¹⁰ Estimated bills for a residential customer in the ENMAX service area over the July 2022 to June 2023 period.

¹¹ Estimated bills for a residential customer in the ATCO Gas South service area over the July 2022 to June 2023 period.

The difference in switching incentives for regulated electricity and natural gas is driven by retailers' responses to changes in forward market prices over Q2. While forward prices for electricity increased significantly over Q2 2022, increasing expected RRO rates for much of the next year (see [Section 4](#)), the retailer offering the lowest-priced 3-year rates did not adjust its rate offering. Conversely, natural gas futures prices increased throughout most of Q2 then dropped significantly beginning in mid-June. This decline in natural gas futures prices lowered expected DRT rates over the next year but did not result in a timely drop in natural gas fixed rate offerings by retailers, who had previously raised their natural gas fixed rates in response to increasing expected costs throughout most of the quarter.

As a result of these market changes, the 12-month electricity switching incentive as of July 1 was higher than it was on April 1, while the natural gas switching incentive was considerably lower (Table 3).

Table 3: Average 12-month expected monthly bill savings by competitive switch date (3-year fixed rates)¹²

| Switch Date | Electricity | Natural Gas |
|--------------------|--------------------|--------------------|
| April 1, 2022 | \$ 23.11 | \$ 22.64 |
| July 1, 2022 | \$ 31.72 | \$ 4.06 |

3.2 Variable rates

Most energy retailers offer variable energy rates to customers. Unlike fixed rates, variable rates change monthly and customers are often not aware of the energy rate they will face in a given delivery month. Variable rates offered to residential customers typically come in one of two forms; variable rates tied to the wholesale market prices, and variable rates set at the regulated rate available in a customer's service area.

As regulated rates are set in advance of a delivery month, competitive retailers that tie variable rates to regulated rates may inform their customers of the current-month variable rate. This is not possible for variable rates tied to pool price, as monthly pool prices are not known with certainty until pool prices for all hours in the month have been established.

Residential competitive variable rates tied to wholesale spot market prices have often been higher than regulated rates since 2021 (Figure 18, Figure 19). In Q2 2022, residential RRO customers in the ENMAX service area faced energy rates around 2 to 4 ¢/kWh less than comparable residential customers on variable rates tied to pool price. Residential DRT customers also experienced lower energy rates compared to competitive variable rate retail customers in much

¹² Assumes a residential customer switches to 3-year fixed rates on the switch date. Monthly savings from an April 1, 2022 assumes the customer switches to a 7.89 ¢/kWh at \$6.99/month electricity contract and a \$4.39/GJ at \$6.99/month natural gas contract.

of Q2, with DRT customers facing energy rates around \$2/GJ lower than residential customers on variable rates tied to wholesale natural gas prices in April and May 2022.

Figure 18: Estimated competitive variable electricity rates vs. RRO, residential customers, ENMAX service area (Q1 2021 to Q2 2022)¹³

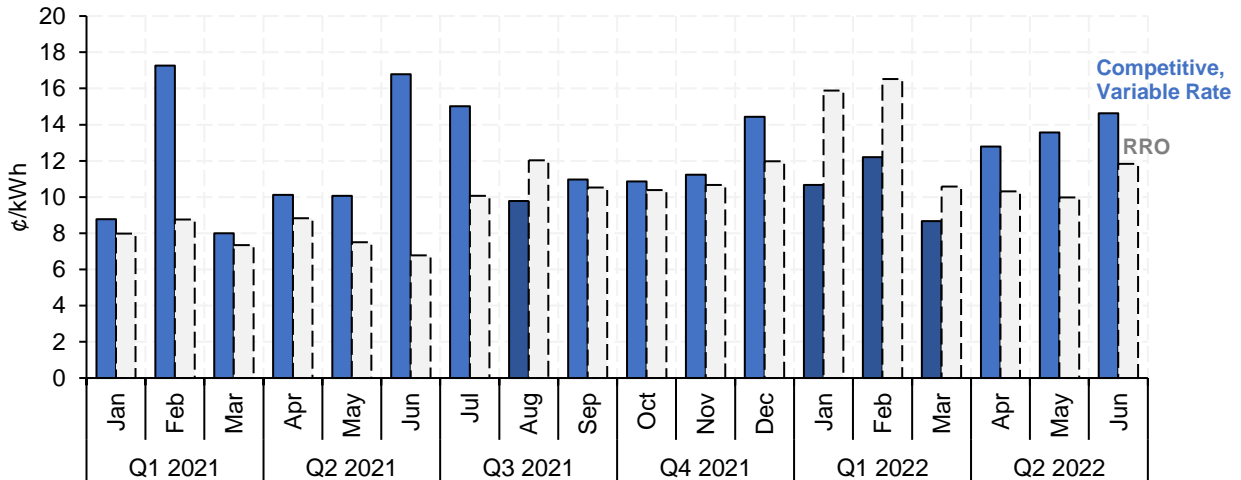
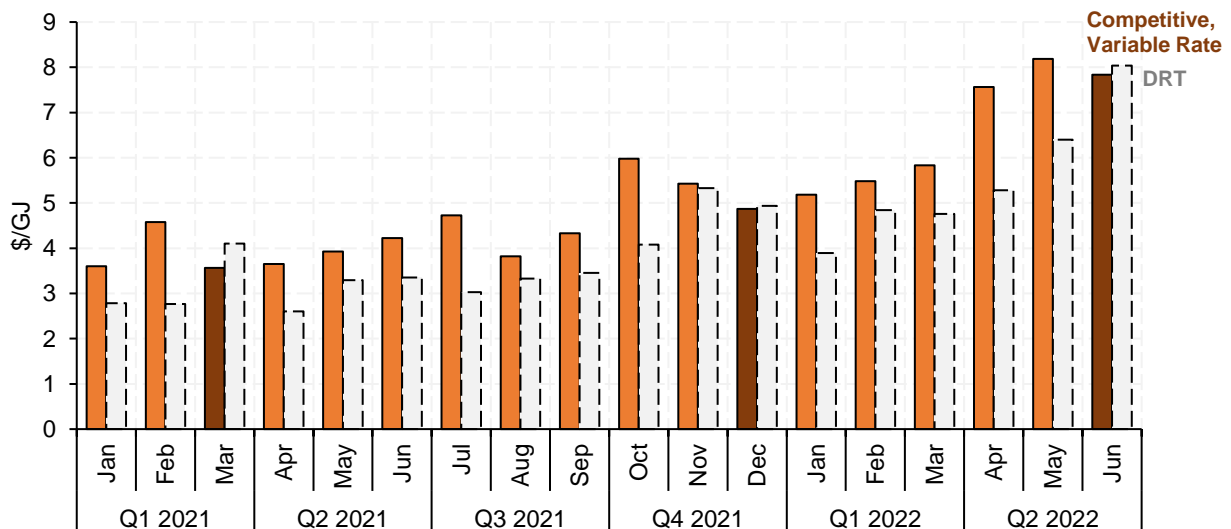


Figure 19: Estimated competitive variable natural gas rates vs. DRT, residential customers, ATCO Gas South service area (Q1 2021 to Q2 2022)¹⁴



Similar to many customers remaining on regulated rates, the MSA expects many retail customers on variable competitive rates do not switch to fixed rates under the expectation that variable energy rates will be lower than fixed rates in the long-run. While this expectation could turn out to be accurate in the long-run, this approach ignores the ability of many competitive retail customers to switch between variable and fixed rates at no additional cost, either within their existing retailer

¹³ Competitive variable electricity rates calculated as residential load-shaped pool price; includes a 1 ¢/kWh adder.

¹⁴ Competitive variable natural gas rates calculated using the daily gas index; includes a \$1/GJ adder.

or by switching retailers entirely. An active retail energy customer may switch to fixed rates following periods of sustained high variable energy rates and may switch back to variable rates if they observe a period of sustained lower variable rates than their fixed rate. However, the MSA does not expect many residential customers could be considered 'active' customers in this manner, as the search costs expended by small residential customers may not exceed any potential gains from switching energy rates.

4 REGULATED RETAIL RATES

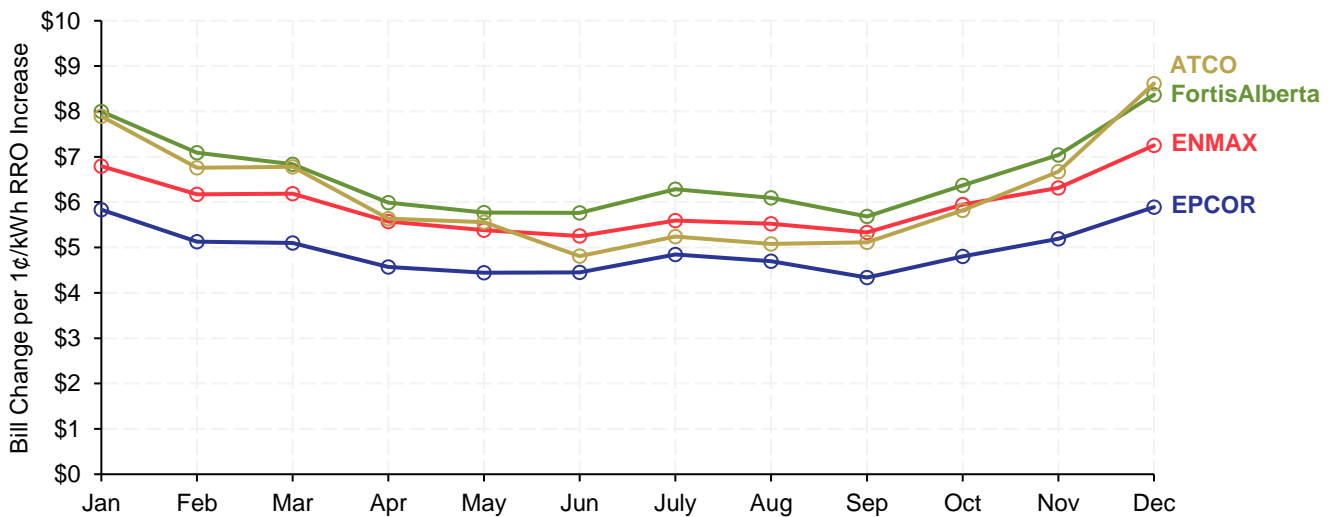
4.1 Impact of regulated rate changes on retail bills

As residential electricity consumption varies seasonally and by location, changes in regulated energy rates impact residential bills differently in different months, and in different parts of the province.

A 1 ¢/kWh increase in the RRO rate can be expected to increase residential RRO bills by between \$4.50 and \$8.50 for an average residential customer, depending on the month and service area (Figure 20). Residential customers living in Calgary or Edmonton typically consume lower amounts of electricity than a customer in the ATCO or FortisAlberta service areas and will typically be less sensitive to changes in RRO rates. However, differences exist even between customers in Calgary and Edmonton (the ENMAX and EPCOR service areas respectively). In Calgary, customers face a local access fee that is in part impacted by the ENMAX RRO rate. As a result, a 1 ¢/kWh increase in the RRO in Calgary increases both the regulated energy rate and the access fee faced by Calgary customers.

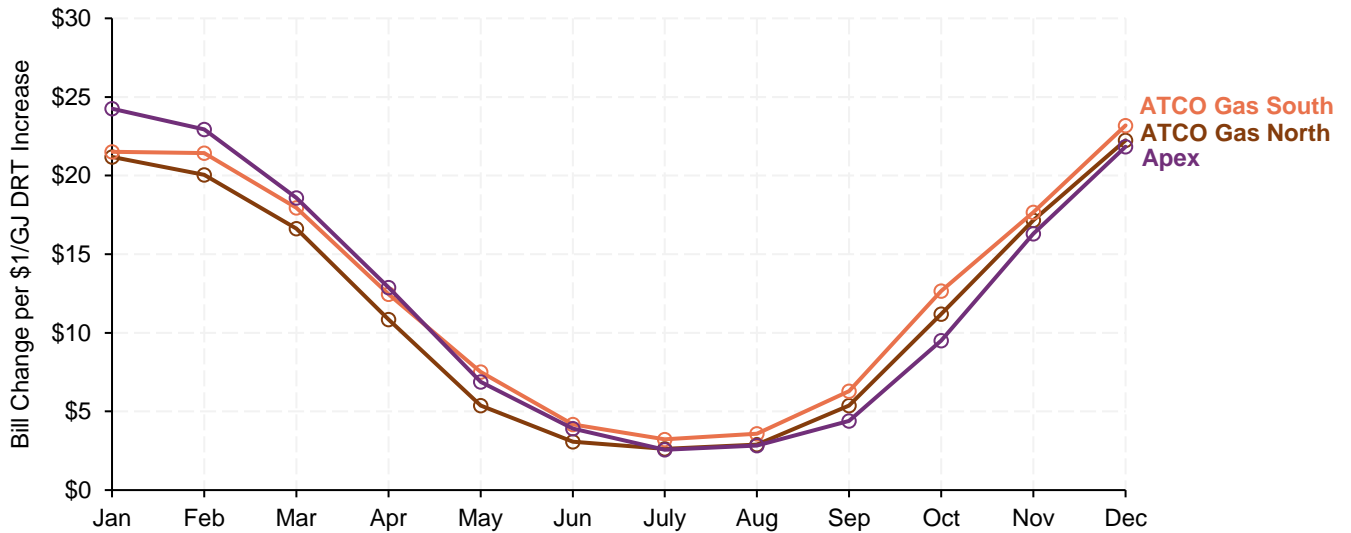
Within a given service area, a 1 ¢/kWh increase in RRO rates can have a varied impact depending on the season, with some service areas facing as much as a \$3.50 *higher* billing impact in high consumption months compared to low consumption months.

Figure 20: Average sensitivity of residential regulated electricity bills to change in RRO rates



While regulated RRO bill sensitivity to RRO rates is somewhat seasonal, regulated DRT bill sensitivity to DRT rates is highly seasonal, with a \$1/GJ increase in DRT rates increasing DRT bills by as little as \$2.50 for an average residential customer in the low-consumption summer months, or as much as \$25 in the winter months (Figure 21).

Figure 21: Average sensitivity of residential regulated natural gas bills to change in DRT rates

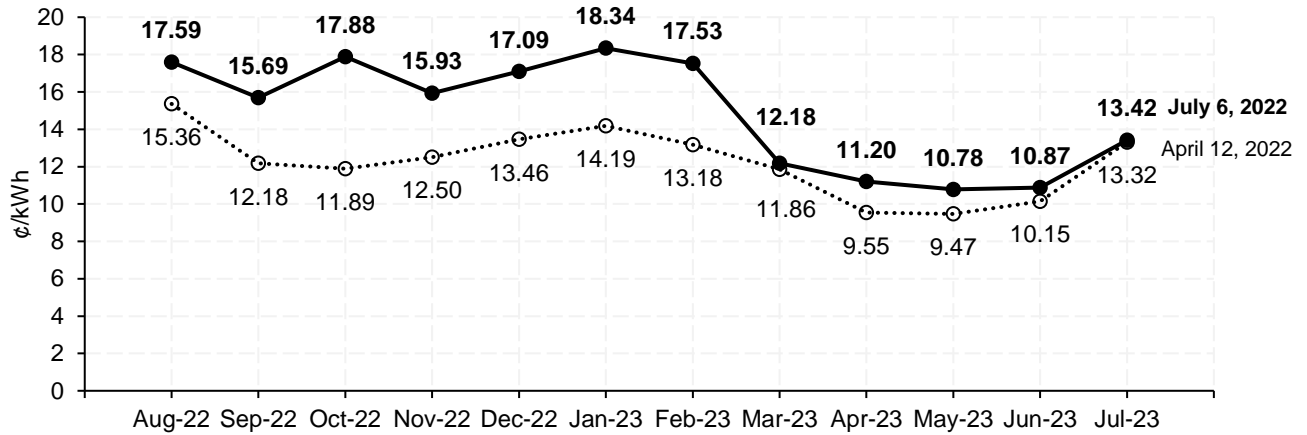


4.2 Electricity estimates

Since the MSA's previously released residential RRO estimates as of April 12, 2022, forward market electricity prices have increased significantly, particularly over the August 2022 to February 2023 period.

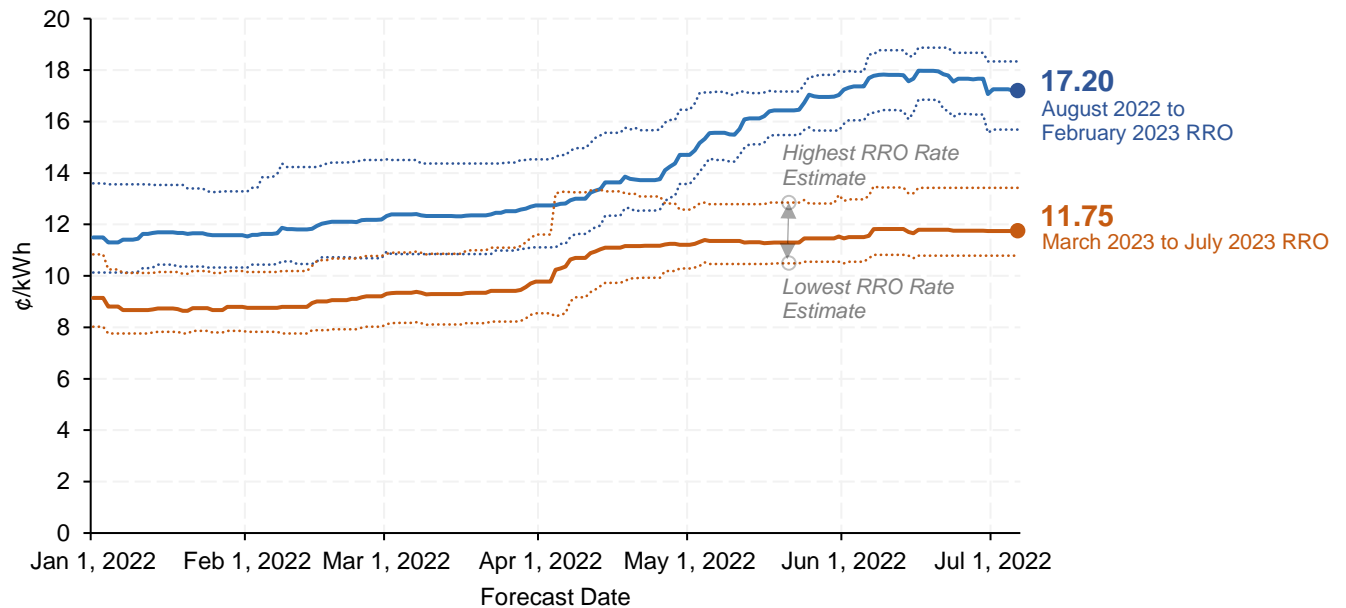
The MSA has updated its residential RRO estimates based on forward market prices and RRO auction prices effective July 6, 2022 (Figure 22). Since April 12, RRO rates for the August to February period have increased by between 2 and 6 ¢/kWh, with a disproportionately large increase observed for the October 2022 RRO rate because of the rescheduling of the Genesee 3 conversion outage to occur during this time. While the MSA notes that none of the rates presented below reflect a complete set of auction prices needed to calculate the final residential RRO rates, the MSA believes it reasonable to expect a period of sustained high RRO rates into early 2023.

Figure 22: August 2022 to July 2023 residential RRO estimates (EPCOR service area), April 12 vs. July 6, 2022



RRO forecasts for the August 2022 to February 2023 delivery period have appreciated considerably since May, while RRO forecasts for the March to July 2023 delivery period experienced relatively minor increases (Figure 23). This difference is reflective of lower pool price expectations for 2023 as compared to 2022.

Figure 23: Evolution of weighted-average expected RRO rate by range of delivery months (EPCOR service area), January 1, 2022 to July 6, 2022¹⁵



¹⁵ Dashed lines represent the lowest and highest RRO rate estimate contained in each range of delivery months. For example, as of July 6, 2022 the lowest RRO rate estimate (10.78 ¢/kWh, for May 2023) and highest RRO rate estimate (13.42 ¢/kWh, for July 2023) among March to July 2023 RRO estimates are represented as the boundaries of the March 2023 to July 2023 RRO range.

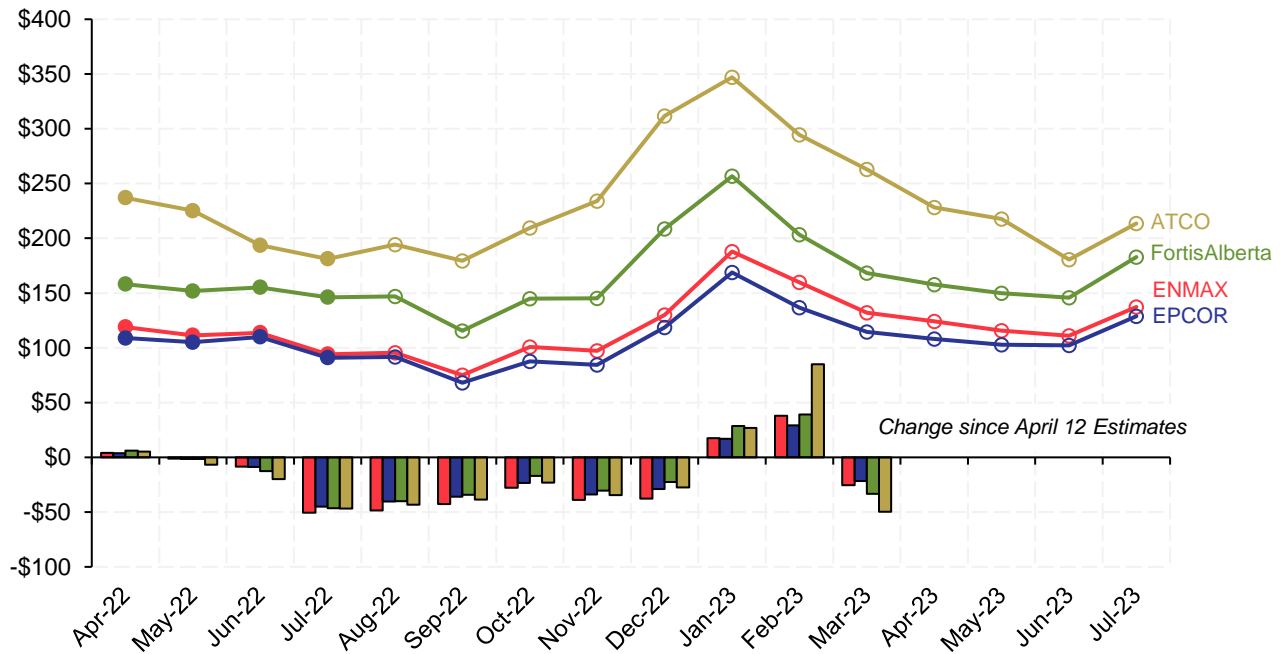
Residential RRO estimates are similar across service areas for the next 12 months (Table 4). Residential RRO rates differ between service areas primarily because of differences in residential load shape, but variations in RRO auction timing can also play a role in RRO differences, particularly if forward market prices are volatile around the auctions.

Table 4: August 2022 to July 2023 residential RRO estimates by service area (RRO provider) as of July 6, 2022

| | ENMAX | EPCOR | FortisAlberta (EPCOR) | ATCO (Direct) |
|--------|--------------|--------------|----------------------------------|--------------------------|
| Aug-22 | 17.47 | 17.59 | 17.34 | 16.77 |
| Sep-22 | 15.36 | 15.69 | 15.42 | 14.78 |
| Oct-22 | 17.01 | 17.88 | 17.58 | 17.47 |
| Nov-22 | 15.93 | 15.93 | 15.65 | 15.37 |
| Dec-22 | 16.11 | 17.09 | 16.84 | 17.48 |
| Jan-23 | 17.79 | 18.34 | 18.06 | 18.71 |
| Feb-23 | 17.59 | 17.53 | 17.25 | 18.33 |
| Mar-23 | 11.81 | 12.18 | 11.99 | 12.39 |
| Apr-23 | 10.60 | 11.20 | 11.01 | 10.76 |
| May-23 | 10.25 | 10.78 | 10.63 | 10.21 |
| Jun-23 | 10.44 | 10.87 | 10.73 | 9.94 |
| Jul-23 | 12.63 | 13.42 | 13.24 | 12.28 |

While RRO rate expectations for the fall and winter have increased since mid-April, expected residential RRO bills have fallen since that time as a result of the inclusion of the \$50 Government of Alberta rebate included in electricity bills between July and December 2022 (Figure 24). This rebate is expected to more than offset recent increases in expected RRO energy costs for an average residential RRO customer. As electricity bill rebates expire at the end of 2022, the net billing impact of higher RRO forecasts for January and February is an increase ranging from \$17 to \$85/month depending on month and service area.

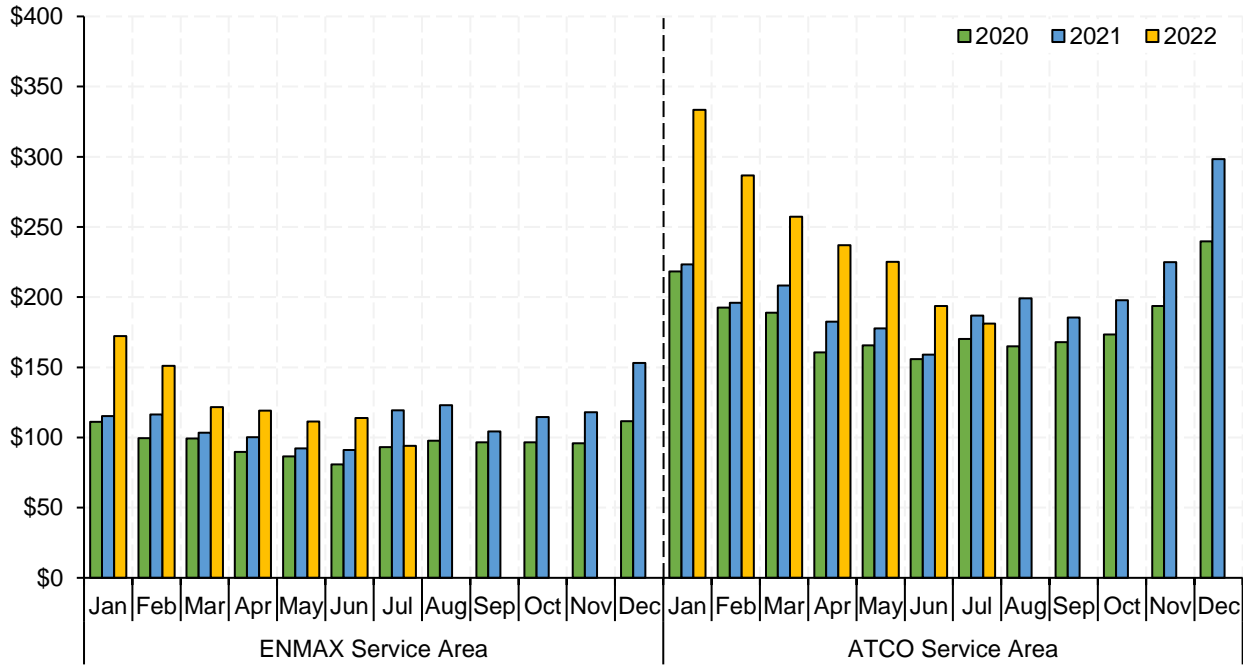
Figure 24: Expected residential RRO bills by service area as of July 6, 2022¹⁶



RRO bills can vary significantly by month as consumption and RRO energy rates are typically positively correlated; RRO bills are typically higher in winter months and to a lesser extent in summer months. Residential RRO customers have experienced considerably higher bills in the first six months of 2022 compared to the previous year (Figure 25).

¹⁶ The \$50 bill rebate was not incorporated into residential RRO bill forecasts in the MSA's April 12 estimates.

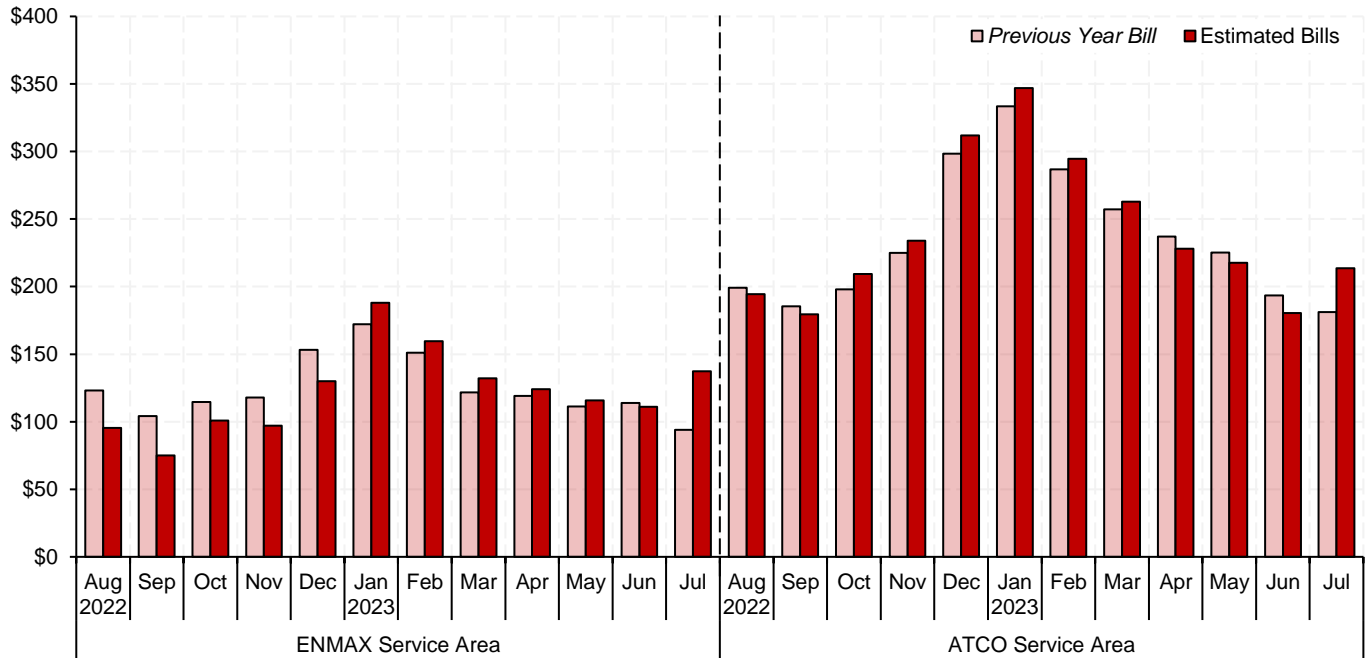
Figure 25: Residential RRO bills by month, January 2020 to July 2022



The net effects of the \$50 electricity bill rebate and increased RRO rate expectations in the second half of 2022 is expected to result in moderate year-over-year declines in RRO bills in service areas with relatively low household electricity consumption (namely, the ENMAX and EPCOR service areas), while RRO customers in higher consumption service areas can expect their RRO bills in the second half of 2022 to be similar to those in 2021 (Figure 26).

Relatively high residential RRO rates anticipated over January to July 2023 are expected to lead to moderate year-over-year RRO bill increases in most of these months.

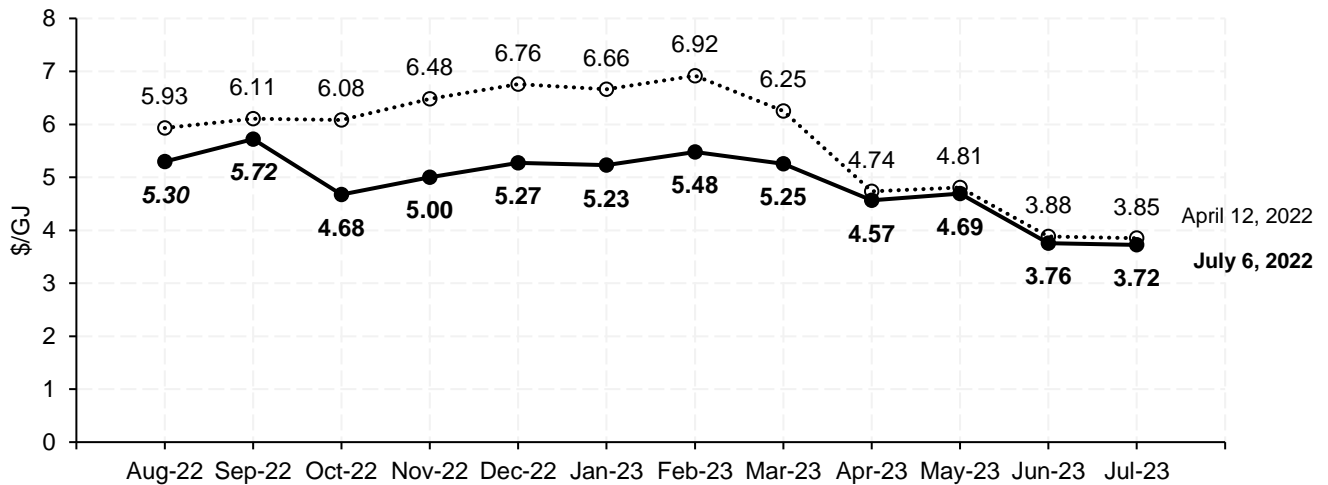
Figure 26: Expected residential RRO bills by month as of July 6, 2022



4.3 Natural gas estimates

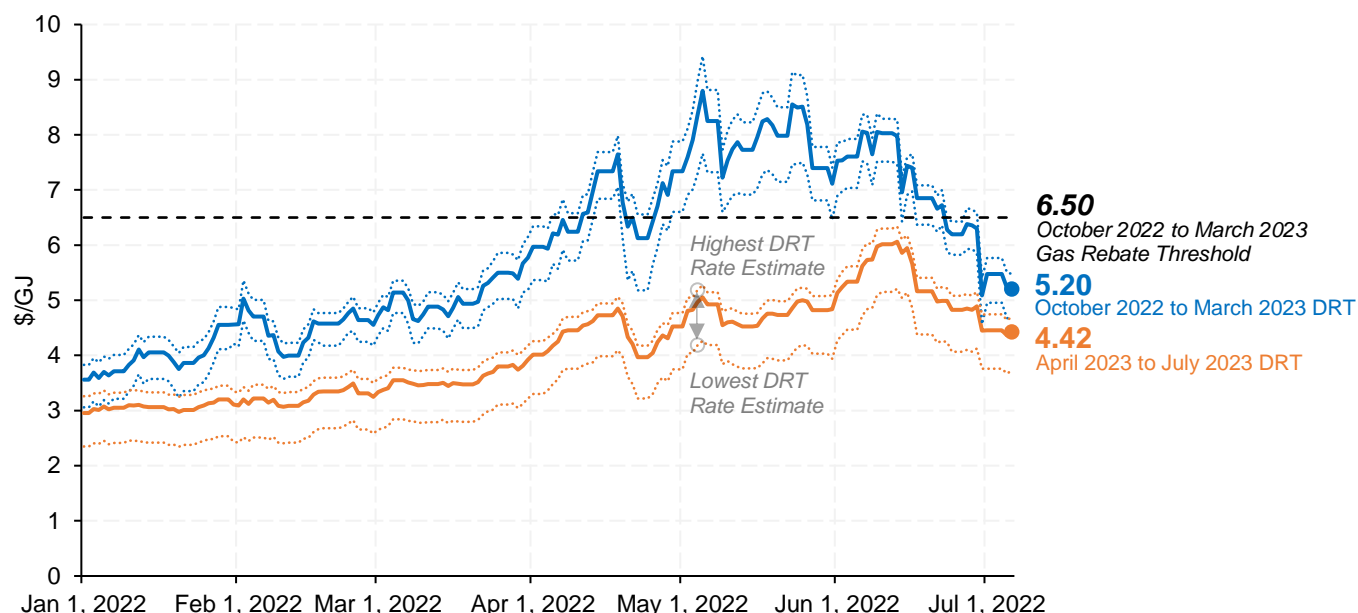
Declines in natural gas futures prices beginning in mid-June have driven down residential DRT expectations over the August 2022 to March 2023 period as of July 6, 2022 (Figure 27). DRT rate declines of around \$1.50/GJ over the October 2022 to March 2023 period have been sufficient to bring these rates below the \$6.50/GJ threshold for natural gas rebates by the Government of Alberta.

Figure 27: August 2022 to July 2023 residential DRT estimates (ATCO Gas service areas), April 12 vs. July 6, 2022



Residential DRT rates expectations for the October 2022 to March 2023 (“winter”) period have varied considerably since the beginning of the year, with rate forecasts for certain winter months breaching the \$6.50/GJ gas rebate threshold in early April (Figure 28). In May, most DRT rate forecasts for the winter period exceeded the rebate threshold, reflecting high natural gas future prices at the time. At their peak in early May, DRT forecasts indicated residential customers in the ATCO Gas service areas could face average DRT rates as high as \$8.80/GJ over the winter period.

Figure 28: Evolution of weighted-average expected DRT rate by range of delivery months, ATCO Gas service areas, January 1, 2022 to July 6, 2022¹⁷



Unlike RRO providers, DRT providers are allowed to use deferral accounts to carry prior month commodity gains or losses into future DRT rates. As a result, DRT r

ates set by different providers can differ significantly in certain months if deferral account balances to be recovered vary significantly between DRT providers. While the MSA’s DRT rate estimates do not typically incorporate deferral account information in its estimates, events surrounding the formation of May 2022 DRT rates have resulted in a different estimation methodology being used for August and September 2022 DRT rates.

Despite DRT rates for April 2022 having been set at \$5.281/GJ and \$3.907/GJ in the ATCO Gas and Apex Utilities service areas (respectively), actual natural gas prices over April considerably exceeded these rates, with the same-day natural gas index price averaging \$6.56/GJ over April.

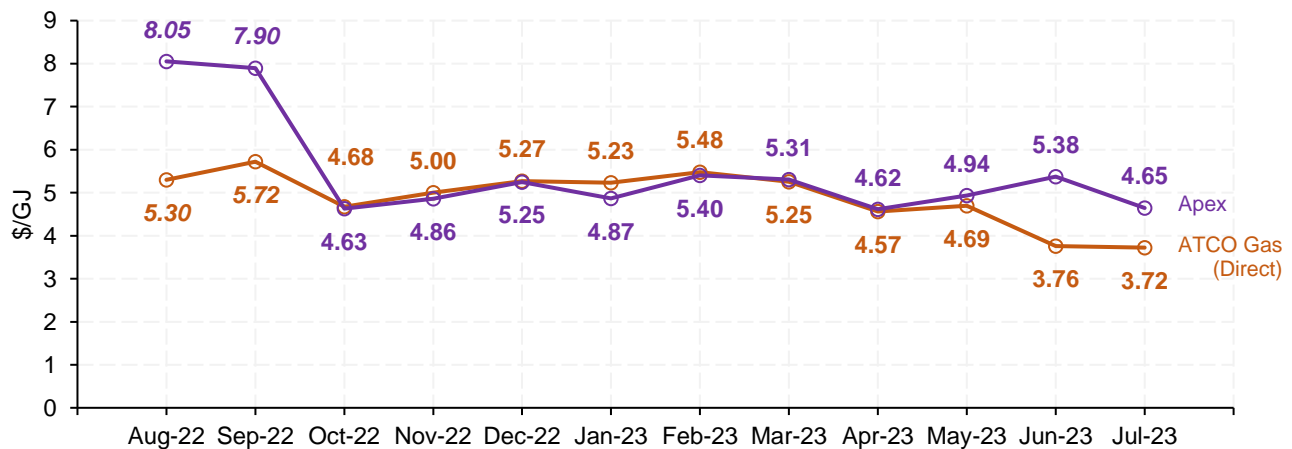
¹⁷ Dashed lines represent the range of DRT rates contained in each range of delivery months. For example, as of July 6, 2022 the lowest DRT rate estimate (\$3.72/GJ for July 2023) and highest DRT rate estimate (\$4.69/GJ for May 2023) among April to July 2023 DRT estimates are represented as the boundaries of the April 2023 to July 2023 DRT range.

As a result, both DRT providers took on considerable deferral account balances to be collected from customers in the future.

On April 25, 2022, Direct Energy Regulated Services (DERS) (serving the ATCO Gas service areas) and Apex Utilities Inc. applied for May 2022 DRT rates of \$8.237 and \$8.855/GJ, respectively.¹⁸ Both DRT providers subsequently lowered their applied-for rates to \$6.399/GJ and \$6.482/GJ, respectively to reduce the rate shock that would otherwise impact gas customers, adding additional amounts to be reimbursed in subsequent delivery months.¹⁹ On May 27, 2022, the Alberta Utilities Commission (AUC) directed both DRT providers to close out their remaining balances carried forward by the end of September 2022.²⁰ As a result, DRT rates approved for June and July were both higher than might be expected given prevailing natural gas futures prices.

As a by-product of the direction to DRT providers to close out remaining deferral balances by the end of September, the MSA expects DRT rates for August and September to vary significantly between DRT providers because of differences in the carry-forward balances between DRT providers (Figure 29). Following the end of September, the MSA expects DRT rates to be similar between providers over the winter period, with historical differences in DRT rates driving relatively minor differences in DRT rates thereafter.

Figure 29: August 2022 to July 2023 residential DRT estimates by service area as of July 6, 2022



The decrease in DRT rate expectations over the winter period resulting from the decline in natural gas futures prices over June has led to limited declines in residential DRT bill expectations since the MSA's last billing estimate in April 2022 (Figure 30). Although the \$1.50/GJ declines in DRT rates expected over the winter could usually be expected to reduce DRT bills by between \$10

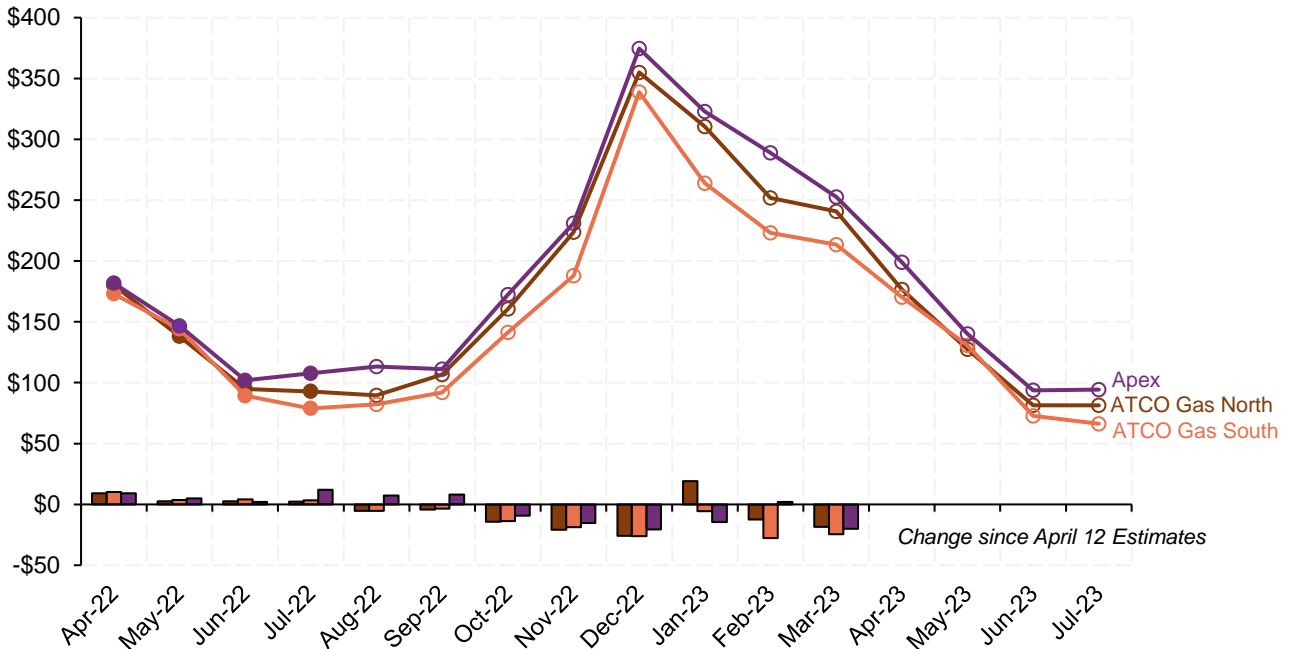
¹⁸ See [Exhibit 27332-X0002 – DERS GCFR May 2022](#) and [Exhibit 27341-X0001 – AUI GCRR Filing 2022-05 2022-04-25](#).

¹⁹ See [Exhibit 27332-X0010 – Amended DERS GCFR May 2022](#) and [Exhibit 27341-X0005 – AUI GCRR Filing 2022-05 2022-04-28 - Revised](#).

²⁰ See [Decision 27397-D01-2022](#) and [Decision 27405-D01-2022](#).

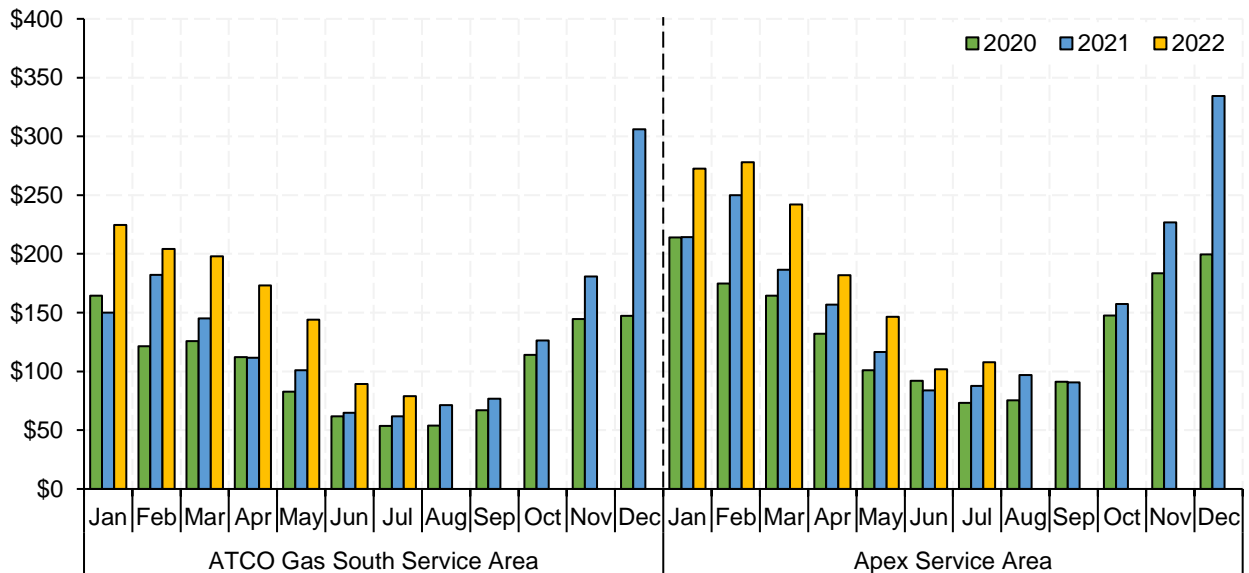
and \$25/month, the more limited declines in expected bills reflect the impact of the \$6.50/GJ natural gas rebate threshold limiting the billing impact of DRT rates that were expected as of April 2022.

Figure 30: Expected residential DRT bills by service area as of July 6, 2022



Residential DRT bills began increasing considerably in November 2021 relative to the previous year (Figure 31). These year-over-year increases continued into 2022 as natural gas prices continued to rise.

Figure 31: Residential DRT bills by month, January 2020 to July 2022



Looking ahead to the next 12 months, despite the fall in expected DRT rates, residential DRT bills between August 2022 and March 2023 are expected to exceed bills received in the previous year (Figure 32).

Figure 32: Expected residential DRT bills by month as of July 6, 2022

