

Alberta's independent utilities regulator



**AUC**

Alberta Utilities Commission



**Annual Review 2015**

**Our Vision:**  
**The Alberta Utilities Commission is a trusted leader that delivers innovative and efficient regulatory solutions for Alberta.**

The Alberta Utilities Commission regulates the utilities sector, natural gas and electricity markets where competitive market forces do not.

The Alberta Utilities Commission is fair, open and transparent in its regulatory processes and delivers sound principled decisions.

We are partial and objective.

We are accountable and strive for excellence in everything we do.

We treat everyone with dignity and respect.

We maintain and promote a positive work environment.



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# AUC Chair Willie Grieve on serving a changing public interest



**This year we entered our 100th year of public utility regulation in Alberta. It has served as an opportunity to reflect on the importance of the functions the regulator provides and the richness of its history.**

Public utility regulation by independent regulator was not invented in Alberta. Every jurisdiction in North America and many more every year around the world have chosen regulation by independent government agency as the way to oversee monopoly providers of essential public services. Alberta made that choice in 1915 and even as the powers granted to the Board of Public Utility Commissioners changed over time, one thing remained – when industries are at the foundation of our economy, essential to participation in society and to the functioning of the economy, regulation must step in where market forces do not in order to protect the public interest. This is not a new concept. It finds its origins as far back as the *Code of Hammurabi* and the writings of Lord Hale in the 17th century. While the use of independent regulatory agencies to oversee these industries is relatively newer, it has become as important as the concept of regulation itself to securing the investments necessary to ensure that the quality of service at just and reasonable rates is sufficient to underpin the industries that are at the foundation of our economy. Indeed, the origin of this concept can be found in the *Magna Carta*.

Today we continue to serve the public interest by carrying out our traditional functions and we undertake other functions as the industries evolve through technological change, government policy changes and competition. Within our jurisdiction, we seek to innovate in the way we regulate in order to respond to change, in order to address incentives that may harm the public interest, and to ready the industry for the future. Performance-based regulation and asset monitoring of distribution companies in conjunction with opening up the local electrical grid to new forms of renewable generation will continue to serve as the framework for the future. As technology brings new opportunities for the regulated companies, and customers and governments to pursue their objectives, the AUC must be ready to meet new demands with new skill sets. We are looking forward, and through our human capital plan we are planning our workforce of the future, today. We are evolving regulatory frameworks to ease the transition to the future for companies and for customers, and we are reviewing old regulatory methods to ensure they are still serving the purpose for which they were developed. As we monitor developments in other jurisdictions, we ready ourselves for new policy directions and seek the most innovative and efficient approaches to economic and technical regulation. At the same time we are examining new approaches to assessing social, economic and environmental impacts of infrastructure development as the nature of the infrastructure projects we oversee changes in response to government policy and technological change.

This is an exciting time for the industries we regulate and for our operations. Through all of the changes to come, be they soon or further away, we will stand ready to pursue our public interest mandate and to ensure that the industries that are at the heart of our economy and our everyday life are operated in a manner that serves the public interest.

A handwritten signature in black ink, appearing to read 'Willie Grieve', written in a cursive style.

Willie Grieve  
Chair, Alberta Utilities Commission



# Commission members



*Top row left to right: Kay Holgate, Henry van Egteren, Mark Kolesar, Neil Jamieson, Bill Lyttle*

*Bottom row left to right: Anne Michaud, Willie Grieve, Tudor Beattie*

## ***Commission members***

Willie Grieve QC, chair  
Mark Kolesar, vice-chair  
Tudor Beattie QC  
Kay Holgate  
Neil Jamieson  
Bill Lyttle  
Anne Michaud  
Henry van Egteren

## ***Acting Commission members***

Dr. Patrick Brennan  
Kate Coolidge  
Gwen Day  
Clifford Goerz  
Ian Harvie  
Bohdan (Don) Romaniuk

# Efficient, effective regulation

Since its inception in 2008, the AUC has worked continuously to refine both how it as an organization operates and how it as a regulator it regulates, in order to be more efficient. Maximizing efficiency while improving effectiveness is the central tenet of the AUC's organizational culture, supported by its annual business plan and operations plan. It is directly cited in the opening sentence of our AUC values:

*The Alberta Utilities Commission is a trusted leader that delivers innovative and efficient regulatory solutions for Alberta.*

The AUC is funded by Alberta utility ratepayers through a levy on regulated utilities. It receives no funding from taxpayers or from government, however the AUC's budget is reviewed each year by Treasury Board. That utility levy, called an administration fee, is calculated and applied semi-annually. The fee is based on the number of ratepayers served by each utility and the AUC workload attributable to that utility. In real terms (inflation adjusted) the AUC's administration fee is materially less today than it was in 2008.

We believe this reflects good public administration. Our mandate demands vigilance and seriousness due to its financial magnitude, breadth and impact and the critical nature of utility service. The AUC is responsible for overseeing an annual aggregate revenue requirement for Alberta utilities of \$4.6 billion, a rate base (regulated utility assets) of close to \$17 billion, natural gas, electricity and water utility service to nearly three million Albertans and a sector with an annual value of \$12.6 billion, including an \$8 billion-a-year wholesale electricity market.

The utilities sector has grown markedly and the AUC's workload has increased over the years. We could not do what we are doing without having streamlined how we regulate and operate, and continuously pursued opportunities to improve our efficiency.

Part of that success is due to our development of criteria and tools to better understand the costs of AUC regulation and outcomes as compared to comparable and peer organizations. Better understanding of our costs and their basis will help us to heighten our efficiency and ensure we have the right annual performance goals in place.

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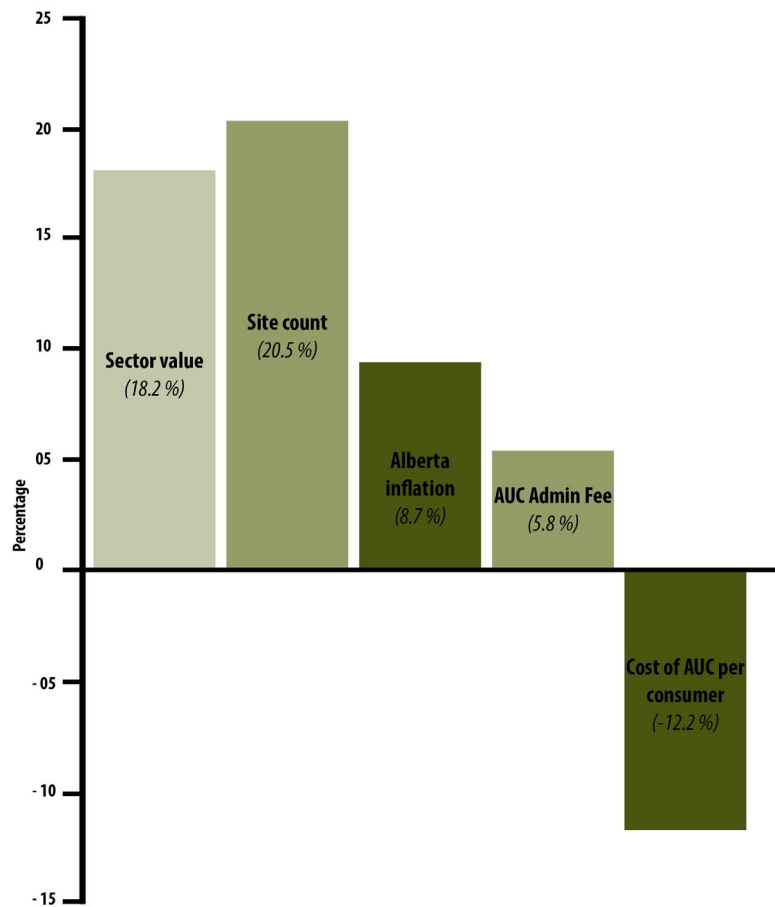
**The AUC believes its commitment to being a performance-based organization and focus on efficiency is essential given its key public role and statutory responsibilities.**

Moreover, it is encouraged by legislation to promote efficiency in the generation, transmission and distribution of energy. What we expect and require of utilities we demand of ourselves.





## AUC performance 2008 to 2014



**After seven years of operation, the AUC is delivering services far more efficiently. The cost of the AUC has declined more than 12 per cent on a per-consumer basis, despite an 18-per-cent increase in the size of the sector it regulates, and an 20.5-per-cent increase in Alberta's utility consumer base.**

These results are the product of a multifaceted approach to performance improvement and cost reduction:

- Each year our operational goals are derived to align with our legislative responsibilities and the Ministry of Energy's business plan. Our operational plan purposely includes stretch targets. It is transposed onto division and ultimately individual personnel work plans.
- Each year every AUC division and each AUC employee is assessed as to their performance in meeting work plan goals. Every employee is also assessed on meeting annual professional development goals.
- Each year we apply more than 30 formal performance goals to our work that include internal and legislated commitments. Our ability to meet these goals is assessed and reported on annually by an independent, third-party expert.
- Each year we survey and/or meet with our stakeholders to identify opportunities to improve our processes or streamline our approaches. Straightforward, positive changes are fast-tracked for quick implementation; when advisable, broader initiatives are initiated.
- Survey results show that: 88 per cent of stakeholders agree that the AUC engages them effectively and with flexibility in its consultation process; 68 per cent of stakeholders personally experienced the results of changes incorporated by the AUC from suggestions made through the survey.
- Each year we collaboratively review and update select AUC rules to ensure they reflect contemporary utility regulatory and business requirements and are not unnecessarily burdensome.
- Each year we survey our own employees to assess job satisfaction, internal communications efficiency, comprehension of their role, concerns and ideas for improvement. Almost 83 per cent of AUC employees are satisfied with their work circumstances and 85 per cent feel their job is a good fit with their skills.

# A centennial of leadership

The Alberta Utilities Commission is committed to being a trusted leader that delivers innovative and efficient regulatory solutions for Alberta. This reflects a long-standing mandate of Alberta's utilities regulator reaching back 100 years; a duty that is as critical today, if not more so, as it was when Alberta's Board of Public Utility Commissioners was created in April 1915.

Now as over the past century the AUC has approached its role with discipline to ensure regulation is timely, intelligently designed, fairly and transparently applied and serves the breadth of public interest. That breadth of public interest includes just and reasonable prices for consumers; competitive operating conditions for utilities; transparent, efficient and fair markets; sensible routing of energy infrastructure; and safe and reliable sources and distribution of energy for Albertans. It also imposes a duty that the AUC constantly be examining its own methods. This regime produced most recently sharp improvements to

our regulatory records management through our e-Filing initiative, to our human resources management through our human capital framework, and stricter cost control through our regulatory cost initiative.

In 2014-2015 the AUC executed on many initiatives to maintain and strengthen Alberta's tradition of utility regulatory excellence and leadership. These were centred on exploring and implementing improvements to heighten both regulatory and utility efficiency. At the heart of the AUC's most recent history and the tradition it represents is a devotion to ensuring a firm but measured hand in regulation that puts sensible, rational and yet adequately flexible approaches in place intended to address actual problems and encourage lower costs for utility service. At the same time, the AUC is continuously focused on improving efficiency and effectiveness in the way it administers its own oversight and seeks out input from



**In 2014-2015 the AUC celebrated a century of service to Alberta by the provincial utilities regulator.**

Over that time Alberta has evolved and its utility regulatory needs have had to change and shift to complement and support changes in Alberta's population, its economy, utility practices, government policy, administrative law and the public interest. Both legislation and the public interest encourage the AUC to explore new approaches that will better serve Alberta and Albertans, particularly through minimizing the cost of regulation and providing incentives for efficiency.

stakeholders of all stripes to do so. The results are real, and material. Since the AUC was created in 2007, the cost of regulation per consumer has declined 12 per cent, despite a higher workload. That said, we are focused on outcomes - not output.

In recent years, utility costs, particularly related to electricity transmission, have caused concern to consumers and policy makers. In 2014-2015 the AUC was centrally involved in efforts to scrutinize proposed transmission construction costs as early as possible though its management of a Cost Oversight Management group that delivered proactive, third-party expert review and comment on transmission projects from planning through construction, including investigating and examining options. This was one of a series of efforts led by or centrally involving the AUC aimed at controlling transmission costs or their impact. The AUC is also actively exploring avenues or techniques that might mitigate the impact of increased transmission construction costs on ratepayers.

Also from the efficiency perspective, another example of the AUC's efforts in this area in 2014-2015 would be the streamlining and exemptions the AUC put in place around its regulatory scrutiny of the transmission connection process. The same initiative saw the AUC ease the process for market participants to construct transmission facilities to be able to quickly meet an immediate need, and then transfer it to a transmission operator.

In the same round of improvements, utilizing the results of a process review, the AUC eliminated application requirements for certain small power plants where public interest considerations are safeguarded. And, garnering input from municipalities, electric and gas utilities, and the Alberta Urban Municipalities Association, the AUC also streamlined its municipal franchise process so that most approvals are granted within 10 days or less.

The AUC has a broad mandate including oversight to ensure the province's provision of utility service is done in a safe and reliable manner at a reasonable cost. For this reason the AUC must under statute approve any sale of utility companies delivering rate-regulated service to Albertans, to ensure a sale would not harm

Alberta ratepayers. These considerations were at the centre of the AUC's in-depth examination of a proposed sale of AltaLink L.P. to U.S.-based Berkshire Hathaway for \$3.2 billion. In November 2014, the AUC approved the sale, concluding it would not negatively affect customer power rates or service quality and would benefit ratepayers from a cost-of-financing perspective. AltaLink's operations and rates will continue to be regulated by the AUC going forward.

Over the past decade a number of events have heightened awareness around energy infrastructure and particularly its potential impact on the environment and citizen safety if something goes wrong. The AUC has been applying enhanced scrutiny around gas utility pipelines related to both safety and costs, and siting for several years.

In 2014-2015 the AUC worked with utility gas pipeline operators to implement recommendations identified a year before when the AUC completed an integrity management and emergency response review of Alberta's

provincially regulated gas pipelines. The AUC also sought and received reporting from the operators on risk identification, integrity inspections, overpressure protection and pipeline water crossings. The AUC continues its activities and its work with operators to ensure the ongoing safety of the pipeline system.

When the AUC was created from the Alberta Energy and Utilities Board in 2008 it took on new and additional legislated adjudicative responsibilities related to ensuring a fair, efficient and openly competitive wholesale electricity market in Alberta. This is to ensure that Albertans are confident that activity their electricity marketplace is conducted in a transparent, fair and competitive manner and wholesale prices are set by market forces. In 2014-2015, the AUC began one of its largest and most important proceedings to date in this area, growing from an application from Alberta's Market Surveillance Administrator alleging misconduct and anti-competitive behaviour by a major market participant. Ultimately in what was a landmark AUC decision, the market participant, TransAlta Corp., was found to have acted in an anti-competitive manner. The proceeding has now been completed, with the what the AUC believes is the largest administrative penalty ever levied in Canada. In total, TransAlta will pay nearly \$56 million to settle the case.

**This streamlining initiative saw the AUC ease the process for market participants to construct transmission facilities to be able to quickly meet an immediate need, and then transfer it to a transmission operator.**





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The AUC is committed to operational self-improvement and does so through regularly seeking feedback from its stakeholders in industry and among those who participate in its consultations and proceedings. In 2014-2015, the AUC fast-tracked a number of improvement suggestions that emerged from consultations and implemented them within months. In addition, the AUC operates with a broad slate of demanding performance measures that are tracked and independently assessed annually.

Nonetheless the AUC also actively seeks to sharpen, improve and better inform its thinking, and in so doing to be intellectually disciplined. In this vein the organization is mindful of the evolution and refinement of utility regulation worldwide towards producing outcomes that mimic the productivity effects and efficient outcomes

of competitive market forces and marketplaces. In this context, a more sophisticated understanding of economic forces and relationships is essential. In the spring of 2014, the AUC created a new position – a visiting scholar in economics – to provide additional economics-centred multidisciplinary expertise to the organization and better equip the AUC to anticipate and respond to structural evolution in the industries we regulate. The goal was to expand the perspectives and techniques the AUC uses in carrying out its mission to protect social, economic and environmental interests of Albertans where competitive market forces do not.

As the challenges have changed, the AUC has delivered changing and evolving solutions to meet the needs of Albertans at the time and in the future.







# Chief executive Bob Heggie on AUC performance



**Providing my observations for the AUC's annual review each year is always rewarding. This year it gives me the opportunity to recognize the success of the Commission on this, its 100th anniversary.**

For 100 years the AUC has pursued and supported the public interest of Alberta. The AUC has undergone considerable change over that time; however, as AUC Chair Willie Grieve noted in his centennial remarks, the AUC's legacy principles and responsibilities remain unchanged. While evolving policies and goals have added and continue to add layers of complexity to our work, our challenge is to integrate new directions into a coherent and innovative regulatory approach that upholds the AUC's foundational principles.

It's important to highlight the AUC's operational work during the past fiscal year. As in previous years there are common themes which unite what the AUC does and how we approach our work. Everything we do is designed to protect the social, economic and environmental interests of Alberta where competition is not possible.

This report allows you to judge how the AUC has performed.

Working to ensure the AUC is an efficient and innovative regulator is critical to establishing and maintaining the trust of consumers, regulated companies, policymakers and those impacted by the AUC's work. That work was central to our efforts in 2014-2015.

This year saw an examination of our structure and governance through participation in an agencies, boards and commissions review. The AUC has a strong corporate structure supported by an executive team and committees that have clear terms of reference and provide the necessary structure to ensure there is a resilient framework of internal controls throughout the organization. Adding to this in 2014-2015, the AUC significantly strengthened its expertise in this area through increased reliance on the advice and judgement of our general counsel, Doug Larder.

The AUC believes in ensuring costs are controlled carefully and resources are managed efficiently. This has been a top priority since inception and will continue to be so. While more details about the AUC's practices and results in cost control are found elsewhere in this report, since the AUC started operations in 2008, through good planning and prioritization, the AUC has saved more than \$29 million for administration fee payers, in real terms. It equates to more than 11 per cent of our budget over the period. We take our stewardship of ratepayers' financial support very seriously. The AUC is funded by ratepayers through a levy on regulated utilities and receives no money from government. On average, Alberta consumers pay 12 per cent less today for the AUC than they did in 2008.

Operationally, the AUC continues to challenge itself while meeting its targets. Since 2008, the AUC has had an independently confirmed 83 per cent success rate on corporate deliverables. When influences beyond our control are factored in, it rises to 90 per cent. In 2014-2015, the comparable figures were 90 per cent and 94 per cent. Our stakeholders, surveyed annually, continue to verify our progress – and by input and invitation contribute to our efforts to improve.

A renewed emphasis was placed during the year on staff development. The most notable initiative was the AUC's new human capital competency framework, which provides transparency and clarity of what is expected of staff in each position and at each level of the organization. It provides a framework for training and development in an effort to build knowledge, professionalism and necessary specialist skills. We understand that all that we do and how we do it is a product of who we are individually and in aggregate. Our goal is to be better. A key value of the AUC is maintaining and promoting a positive work environment in which all are treated with dignity and respect. We feel that diverse experiences and backgrounds help make us a better organization and a better team. Almost a third of the AUC's personnel are under 35 years of age, a proportion that has been growing. More than 40 per cent of our staff are female and that proportion is rising. More than 30 per cent of our leaders are women.

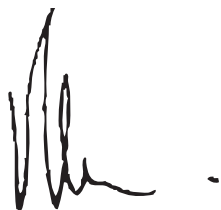
Team and community are central tenets of the AUC's corporate culture, reflecting our commitment to strive for excellence in everything we do. We actively support the communities in which we work and live through programs such as the United Way and Days of Sharing. In 2014-2015 the AUC's United Way performance was again record-setting and earned us a nomination for the United way's Quantum Leap Award.

The AUC's legislative mandate requires it to weigh environmental considerations in determining the public interest. But beyond this central facet of our regulatory decision making, we take responsibility for our own environmental impacts - and work to reduce them. The AUC's in-house Green Team has helped us reduce waste, reduce energy consumption, boost recycling and conservation, and reward green choices by AUC staff. In 2014-2015, more than a third of our employees participated in our Green Rewards program, which supports waste reduction; transit, carpool, foot and cycle commuting; battery recycling and reducing power consumption.

Given its public interest role, the AUC works continuously to assess and sharpen its communications as part of its promise and commitment to being open and transparent. Some examples of this during the year included a review of how we write and what we include in our public notices. Focus group feedback that was part of this process allowed us to refine and enhance our notices, resulting in a 20 to 25 per cent reduction in the required advertising space. Another example was the establishment of dedicated website pages, or microsites, for major proceedings. This further eased access to interested Albertans.

Our ability to efficiently handle an ever-increasing workload rests with the quality of the team at the AUC. Given their track record I am confident that we can continue to deliver results as we embark on the next 100 years of regulation.

My thanks to the entire AUC team.

A handwritten signature in black ink, appearing to read 'Bob Heggie', followed by a small horizontal line.

Bob Heggie  
Chief Executive, Alberta Utilities Commission

# Rates

At the very core of the AUC's mandate and expertise is the setting of rates for utility service. As a regulator, the AUC must balance the rights of consumers to safe and reliable utility service at just and reasonable rates, with the necessity to ensure owners of utility companies have a reasonable opportunity to earn a fair return on their investment.

The dollar values are substantial. In 2014-2015 Alberta's regulated utilities had a revenue requirement of \$4.6 billion supporting a \$16.8 billion rate base used to serve nearly three million Albertans.

Rate-setting is an extraordinarily complex area, which in recent years the AUC has sought to both simplify and make more efficient through such initiatives as distribution performance-based regulation (PBR), implemented in 2013. PBR is intended to bring competition-like pressures to bear on distribution companies to keep rates lower than they would otherwise be. In 2014-15, the AUC began the initial steps of planning for the next round of PBR, as well as refining our approach to the PBR-related annual capital tracker applications, and the testing and review of annual PBR rate adjustment filings. Details on these refinements can be found in the Distribution area of this annual review.

The aim of limiting consumer rate cost increases and slowing any rise in rates permeates across much of the AUC's rate-related work. Major planks in these efforts in 2014-2015 were:

- The AUC's oversight of a cost oversight manager, or COM, pilot project. This project, which examined six transmission developments directly assigned by the Alberta Electric System Operator is intended to bring a demanding engineering and construction focus to cost containment efforts in the early and middle stages of transmission project development.
- Implementation of an approved cost estimate application process for AESO direct-assign electric transmission projects.
- The launch of a two-year consultation and process development around standardization in the approach to dealing with AESO transmission charges. Stakeholders submitted a joint proposal to standardize their quarterly applications. Late in the fiscal year the AUC also received a joint submission on how true-ups could be standardized.
- Preparing the terms of reference and selection process for an independent audit of AltaLink's Southwest Transmission Project. The audit was received early in fiscal 2015.

In related areas, the AUC implemented recommendations that

emerged from a review of the legislative requirements for gas, electric and water agreements and associated rate riders. Using a consultative approach this, resulted in a streamlined franchise application process given effect by an updated AUC rule (Rule 029).

Overall the AUC's workload in the Rates area has remained largely steady over the past three years, with some notable exceptions. In 2014-2015, there was an increase in the number oral hearings, where landowners and other interveners can have outstanding issues in an application explored. The number of inquiries and complaints about utility matters also rose above levels seen the prior two years driven in part by the AUC's examination and review of the proposed \$3.2 billion sale of transmission operator AltaLink L.P.





# Markets

The AUC's mandate in the markets area is focused on ensuring Alberta's wholesale market for the sale of electricity operates in a fair, efficient and competitive manner. In addition, the AUC ensures that rules issued by the transmission system operator – the Alberta Electric System Operator – satisfy the province's statutes and regulations governing transmission operations.

This is an area of the AUC's regulatory oversight that requires a clear understanding of economic influences and how economic forces can assist in optimizing outcomes around pricing and market efficiency. Since this oversight was added to the AUC's mandate in 2008 our work in the area has contributed considerably to better understanding and dexterity in other areas we regulate. At the same time, while the Commission's sophistication in this area has increased, on a number of occasions it has had to interpret facets of legislation and regulations for the first time, setting the path for future applications.

Market participant behaviour in Alberta is governed in part by the *Electric Utilities Act*, and the *Fair Efficient and Open Competition Regulation* (FEOC). The latter was implemented in 2010 to add clarity

to what market behaviours and techniques are considered acceptable and which are not. In 2014-2015, the AUC's Markets proceedings were increasingly focused on matter arising from FEOC, with the volume of applications on FEOC-related matters more than doubling to 11 from five the year before. It was the highest level ever.

The Markets group also dealt with a number of independent system operator rule applications; although the number of applications fell, the number of rules dealt with rose from a year earlier. The filing of reliability standards also jumped, climbing to 47 standards (in 17 applications) from six standards (in six applications) a year earlier.

A key file overseen by the Markets group is the resolution of a long-time dispute about the independent system operator's

transmission line loss rule and loss factor methodology. These highly technical protocols apportion the cost of electrical power that is lost in transmission, which can be worth multiple millions of dollars. In 2014-2015, the AUC issued two decisions around changes that will bring the regime into full compliance with Alberta legislation.

**The AUC's mandate in the markets area is focused on ensuring Alberta's wholesale market for the sale of electricity operates in a fair, efficient and competitive manner.**



**In February 2014 the AUC received a high-profile notice request by the Market Surveillance Administrator to initiate a proceeding against TransAlta Corporation and two affiliated individuals.**

The MSA alleged that TransAlta and the two individuals engaged in anticompetitive conduct that undermined the integrity of the Alberta wholesale electricity market. This proceeding, in which TransAlta was ultimately found to have contravened legislation and regulations, continued throughout 2014-2015. This was a highly complex proceeding and represented the most substantial Markets proceeding since the AUC's establishment in 2008, and along the way included several interpretations of statutes. The case was resolved with the largest administrative penalty in Canadian history, at \$52 million plus a further \$4.3 million in costs.

# Generation and transmission

One of the most important facets of the AUC's regulatory work is centred on the facilities that generate electricity and the systems that transmit power at the bulk level throughout Alberta. This network is called the Alberta Interconnected Electric System. The AUC must ensure that the construction and where applicable, the routing of these facilities is in the public interest, with particular attention to economic, social and environmental factors. The AUC also oversees natural gas transmission used for gas utility purposes. In both cases the AUC ensures the relevant rules and legislation are satisfied, including the environmental aspects.

A major initiative of the AUC within the area of transmission and generation was focused on simplifying and streamlining the processes used for certain need identification documents and applications for electrical infrastructure, for the applications for isolated generating units and for updating environmental requirements.

Around need, comparable work was undertaken to clarify and reinforce the process for examining the need for new natural gas utility transmission pipelines and facilities, and importantly, the impact of those facilities on rates. To this end, the AUC issued an extensively revised Rule 20: Rules Respecting Gas Utility Pipelines, in March 2015.

Also in the area of gas utility pipelines, the AUC has been engaged in a multi-year effort around auditing and assessing the compliance and adequacy of Alberta's two gas utility pipeline operators (ATCO Gas and AltaGas) with respect to their integrity management plans and emergency response plans. In 2014-2015 the AUC sought reporting

on risk identification, integrity inspections, overpressure protection and pipeline water crossings. The AUC also prepared for compliance reviews in 2015-2016.

The AUC's technical oversight mandate includes the acceptable noise levels of produced from generating facilities and other utility infrastructure. In 2014-2015, the AUC developed procedures around applications where wind masking of noise is a factor.

Both electric and natural gas transmission initiatives can be massive projects worth in some cases billions of dollars. In 2014-15, some of the larger projects or proceeding in this area included the AltaLink Red Deer Area Transmission Development project, the ATCO Power Heartland Generating Station, the Capital Power Genesee Generating Station, ATCO Pipelines Urban Pipeline replacement, the AESO south and west of Edmonton transmission facility needs identification document, and the TransAlta Sundance 7 Generating Station. Overall, the AUC dealt with 21 complex facilities applications in 2014-2015.

During the year, the AUC developed new maps of the wind farms in central and southern Alberta, as well as updates of the provincial grid system and Alberta's natural gas transmission pipeline system. For major facilities applications, the AUC implemented earlier notices and made changes in notice content and format to improve the effectiveness of the notices. This is intended to better ensure that Albertans who may be impacted by an application before the AUC have an opportunity to understand the project and how they can take part in our proceedings. Overall, the AUC has improved the participant involvement process for project applications, including enhancing market participant choice.



**All of the generation projects the AUC scrutinized in 2014-2015 were designed to utilize low-emission natural gas or renewables such as wind power.**

Renewables and natural-gas-fired generation were and have been a key driver behind much of the recent transmission development in Alberta, which is intended by policy to facilitate the development of generation by the private sector.



## Distribution

Alberta's utility distribution companies deliver electricity and natural gas to homes and businesses, at the level between the bulk transmission level and delivery to the point of consumption. They account for a substantial amount of the industry, directly serve all Albertans receiving utility service and employ thousands of people in communities across Alberta.

This is a highly visible portion of the industry and accounts for a significant portion of the AUC's oversight. The bulk of the AUC's control over distribution utilities relates to rates and the terms and conditions of service.

In 2013, the AUC implemented performance-based regulation (PBR) for Alberta's distribution utilities and so their rates are set through a structured, formula-based approach that is intended to keep rates lower than they might otherwise be.

Nonetheless, certain base factors in that formula are adjusted annually for each distribution utility. The AUC also assesses unusual capital expenditures or other expenses outside the normal course of the distribution utility's business. These assessments are conducted through capital tracker applications in which the utility must demonstrate that the amounts are sufficiently material and not recoverable elsewhere using the PBR scheme.

**The AUC implemented performance-based regulation for Alberta's distribution utilities and so their rates are set through a structured, formula-based approach that is intended to keep rates lower than they might otherwise be.**

In 2014-2015, the AUC spent considerable time and effort on making our capital tracker process work more effectively and efficiently. Part of these efforts was determining what assessments should be done on PBR capital tracker applications (based on the AUC's stated minimum filing requirements). This included exploring bringing additional engineering expertise to bear. This is already in place on the natural gas distribution side and will be put in effect on the electricity side in 2015-2016.

The AUC developed a streamlined approach to processing the applications and issuing decisions using an abbreviated timeline. This was done by identifying common features across the applications and in so doing avoiding duplicative efforts. The AUC also introduced staggered filing dates for the applications, to create a more workable flow of applications. This approach will be used going forward and further improvements and efficiencies are being and will be pursued.

Capital trackers are also expected to be among the features of PBR that are scrutinized as the AUC investigates and seeks improvements for the second round of PDR through 2015-2016. This will be a key initiative for the AUC in 2015-2016.



# Organization

The important regulatory work and responsibilities of the AUC and the enhancements the AUC pursues could not be accomplished without our organization working effectively - and seeking to work better. In 2014-2015 the AUC achieved a number of quite significant organizational milestones in its continuing efforts to be a top-tier regulatory organization.

Among the most prominent of the AUC's organizational milestones in 2014-2015, with a direct impact on every staff and Commission member and every AUC stakeholder was the final stages of developing and implementing our new regulatory electronic filing system. This initiative went beyond just updating and improving our ability to receive and manage access to filings electronically, to include a document management and proceeding management system that improves workflow and increases efficiency. This system provides much greater and improved functionality on a modern platform, with the added benefit of built-in metrics and management information to aid in meeting a raft of performance targets, such as timelines.

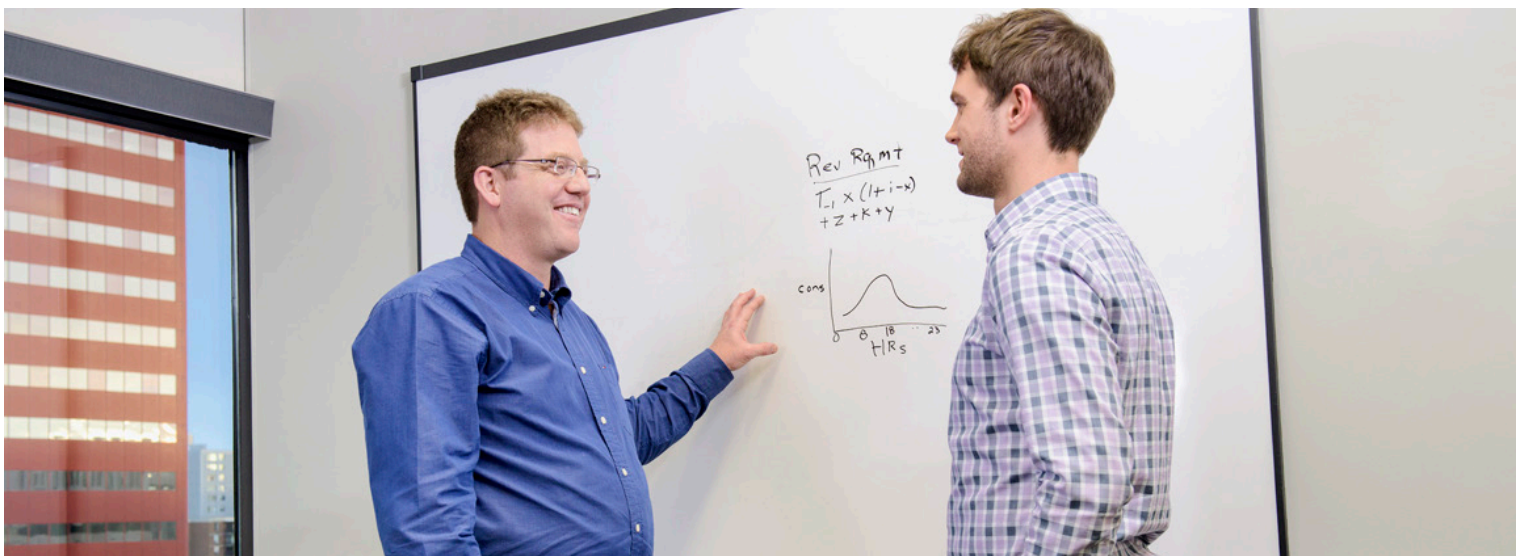
As the e-Filing initiative was aimed at ensuring the AUC and its stakeholders have the best available electronic filing and document systems at their disposal, our human capital framework is designed to ensure the organization has the right skills and competences at hand through its personnel. The AUC's human capital project, implemented in 2014-2015 has and will be a multi-year initiative to better understand the competences required in each AUC staff role, to improve competencies as required and to hire individuals whose skills

match our needs now and in the future. In short, to more efficiently and effectively align resources with requirements and understand the requirements of a job based on the job's requirements rather than the qualities of the incumbent in it. The human capital framework has improved the AUC's processes and decision making around performance planning and assessment. It is also intended to enhance career development, recruitment and promotions, and compensation processes, however results in these areas are not yet measured.

The AUC receives no government funding. It applies the same discipline and expectations about efficiency and fiscal responsibility to itself that it expects of the utilities it regulates. This performance-based approach is accomplished through annual business, operations and personal performance plans that include stretch internal targets in addition to the ones required by legislation and regulation. The AUC is

entirely funded by Alberta utility ratepayers through an administration fee levied on utilities subject to AUC regulation. While it is an independent agency, with its budget approved by Treasury Board, it is part of the provincial government sphere. The AUC has consistently met or bettered its financial and human resource targets. It was able to successfully accommodate further spending and staff containment in 2014-2015 that matched government-led efforts and targets around cost control. As an organization the AUC continues to monitor and manage very closely its staffing levels and expenses to ensure the cost of regulation continues to fall, while pursuing efficiencies to carry out its mandate in the most cost-effective way.

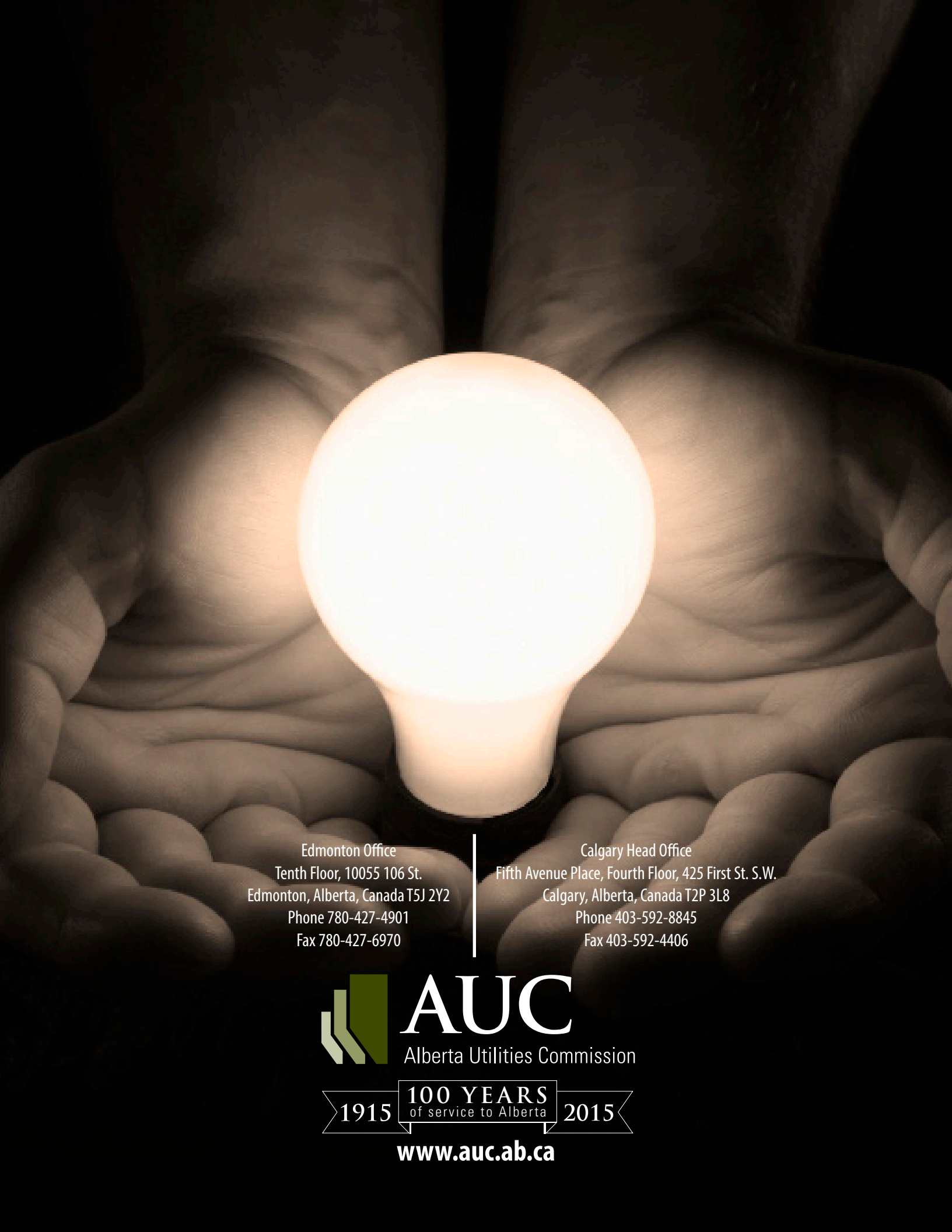
**The human capital framework has improved the AUC's processes and decision making around performance planning and assessment.**











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