

2017-2018 Annual Review

Our vision:

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

What we do:

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

How we do it:

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

Values:

We are impartial 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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A year of challenge and change

he AUC's Calgary offices were successfully moved to Eau Claire Tower from Fifth Avenue Place at the end of the 2017-2018 fiscal year. I am pleased that the lease agreement for our new offices is cash-flow positive. We also rejuvenated our Edmonton facilities. The capital improvements were financed by a combination of landlord lease incentives and prior-year excess AUC administration fee receipts. This innovative approach eliminated

the need to request additional cash through the normal estimates process. Our new offices provide good value for money, with \$10 million in savings over 10 years and an attractive, effective place for our staff to work.

Alberta's capacity market and our low-carbon future

All of the government's

prescriptions for its low-carbon policy framework, to one degree or another, are being put into action. For purposes of this summary, the government's introduction of a capacity market and the first clean power capacity auction, coined the Renewable Electricity Program, or REP, warrant mention. All power plants in Alberta require an AUC approval to construct and a licence to operate and,

The AUC's trust agenda hinges on transparent processes and principled decisions, including rapid and fair enforcement. as a result, the AUC has seen a material rampup in renewable facility applications and related information sessions. The government's initiative to create a capacity market in Alberta, where some generating capacity and not just energy, is auctioned, marked the biggest development



in the electricity sector in a generation. A key AUC objective is to be an authoritative resource of quality analysis for capacity markets. This year we turned our attention to building expertise to carry out our adjudicative function in the review, approval and

> operation of capacity market rules. We launched a cross-divisional, multidisciplinary team to build analytical capacity and strengthen AUC decisionmaking ability. Around capacity market implementation, the Alberta Electric System Operator has been working with stakeholders to design and integrate a capacity market into Alberta's electricity framework. The

AUC's ongoing efforts in supporting that reform accelerated during this reporting period.

Renewables

All of the government's

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put into action.

The AESO established a process to meet the government's renewable energy and capacity market objectives. The first round of the REP, announced in December 2017, saw four projects totaling 600 megawatts selected. Prices averaged 3.7 cents a kilowatt-hour, which were so attractive the AESO procured an additional 200 megawatts above its 400-megawatt target. The government has announced further procurement rounds, totaling 700 megawatts of capacity. The second round will include an Indigenous equity ownership requirement and both the second and third rounds are to be completed by December 2018.

Performance-based regulation

The Commission's Rate Regulation Initiative, also called performance-based regulation or PBR, reached the end of its first term. PBR is intended to mimic competition and restrain rate growth to less than it might otherwise be for distribution companies. During this reporting period, two important decisions were made that will guide the second performance-based regulation term for Alberta's distribution utilities.

First, the Commission determined its approach to resetting or rebasing the companies' costs, with a historical average approach that will yield a transfer of benefits to consumers resulting from efficiency savings achieved in the first PBR term. This is likely to be greater than had it used costs from solely the final year of the first PBR term.

Second, the Commission reviewed its approach to capital expenditures. During the first PBR term, the Commission excluded some capital investments from PBR control through a capital tracker approach. This allowed companies to have certainty that their capital investments would be profitable, however it

blunted efficiency incentives. In the new PBR framework, the capital trackers arrangement will be replaced by a more demanding approach, which also captures significantly more capital in the central PBR efficiency structure. Importantly, the second generation PBR rebasing exercise will provide an opportunity to gauge the effectiveness of PBR. The first term has proven successful for the companies and their

investors as profits have grown faster than their allowed costs, while rates increased less than they otherwise would have.

Price signals and tariff design

With the start of a second PBR term, the Commission will focus resources on evaluating the price signal produced through tariff design. With the government's adoption of a low-carbon policy approach, the existing tariff structure may be out of line with the emerging cost structure. Transmission and distribution charges are largely fixed. However, utilities collect a significant portion of costs under volume-base tariffs. As growth slows due to economic, policy prescription, or technology reasons, utilities now face greater revenue risks.

Several current developments impact this issue. First, the emergence of distributed generation, which may create inequities among residential customers. Second, cost causation applies to residential customers, which suggests a heavier reliance on a demand charge. Third, an increase in energy efficiency and conservation initiatives by or for consumers to buy down their power bill as well as to clip system demand peaks, will create cross-subsidy effects between traditional customers and those making efficiency investments. Lastly, the introduction of a capacity market will require the Commission to examine how capacity charges are collected from consumers. Demand peaks drive capacity charges and support more cost-effective pricing. While small steps have been taken to evaluate our current rate design in light of these changes, more work is required to think

> about different design options, including predicting their impacts and protecting those who might be vulnerable to the new design.

Organizational performance

A major theme of our operations has always been providing value for money and the AUC has consistently driven down its cost structure as reflected by a nine-year record of continually lowering

the cost of regulation per customer. Last year, in recognition that demands on our staff are intense, an increased challenge to meet our performance targets, and a desire to position the AUC for future challenges, we embarked on a recruitment program to ensure staff resource adequacy.

The result was this year the AUC was projected to average 134 full-time equivalents or FTEs at fiscal year-end. This reflects an increase from 130 FTES in April 2017 to a projected 138 FTEs in March of 2018, although the actual count at March 31 was 132 FTEs. While this better positions the AUC for future success and affords more work-life balance to our staff, for the first year of



The AUC has consistently driven down its cost structure as reflected by a nine-year record of continually lowering the cost of regulation per customer. our operations since the AUC was established in 2008, the cost of regulation did not decrease, rising about one per cent.

As in past years, we measure our performance against published performance measures. This year the AUC is on track to meet 23 of 30 measures, a success rate of more than over 76 per cent. This result is lower than prior years and is due, in large part, to missing our employee survey performance measures. Austerity initiatives, including elimination of variable pay, salary and hiring freezes and compensation restrictions had a material impact on employee engagement, retention, and morale.

Technology upgrades

Our investment in information technology continued this period. Major progress was made on the directives compliance tracking tool and external website design initiatives. Both were

completed at the end of the fiscal year, along with an internal precedent database that will enhance our ability to prepare and issue better decisions, earlier. I'm particularly excited about the website redesign. Incorporating input from external focus groups, the website is vastly improved in both the clarity of its communication and ease of use.

Our regulatory agenda volume decreased this year. Applications are down roughly five per cent year over year and we issued roughly 10 per cent fewer decisions than the prior reporting period.

However, these statistics are misleading as they do not reflect the complexity of our adjudicative agenda. As I mention elsewhere, this year saw a significant effort directed towards establishing the framework for the second-generation PBR period for the distribution utilities.

In terms of contacts by consumers, complaints about utilities are on the rise, with delivery rates being a particular concern. Additionally, the government's support of distributionconnected or local generation has given rise to an increase in inquiries about microgeneration opportunities.

Distributed and community generation

The AUC also conducted a major review of distribution system-connected generation. Directed through an order-incouncil to investigate this matter, the AUC submitted its report at the end of 2017. Included in the review was input from a wide spectrum of stakeholders over eight days of oral hearings in

As a regulator, we are bound by statute, evidence and reason. The importance of our function and independence in this rapidly changing sector has never been more critical.

Edmonton and Calgary, with a resulting 125-page detailed report that is available on our website.

The AUC's trust agenda hinges on transparent processes and principled decisions, including rapid and fair enforcement. This year saw further advances in our enforcement approach as we built on lessons and learned from prior cases. The Oldman 2 Wind Power compliance file, which included a payment of \$280,000 to support local environmental efforts, is a case in point.

Summary

The work of the Commission and its staff is impressive and extremely important, with the implementation of the government's low-carbon policy prescriptions and related investments. As a regulator, we are bound by statute, evidence and reason; and the importance of our function and independence

in this rapidly changing sector has never been more critical.

My final comments are aimed at thanking the highly skilled and motivated Commission members and staff who have continued to demonstrate their ability to produced evidence-based, strongly reasoned decisions.

It is always unfair to pick out individuals, but I would like to put on the record the executive team's and my own huge appreciation of our departing chair, Willie Grieve. His contributions as the first permanent chair of the AUC were enormous and transformational.



Bob Heggie Chief Executive, Alberta Utilities Commission

In 2017-2018, the AUC received 85 applications for renewable facility projects. One hundred per cent of generation applications were renewable or alternative.



Top row left to right: Tracee Collins, Neil Jamieson, Henry van Egteren, Bill Lyttle, Joanne Phillips, Carolyn Hutniak Bottom row left to right: Anne Michaud, Willie Grieve, Mark Kolesar

Commission members 2017-2018

Willie Grieve QC, chair Mark Kolesar, vice-chair Tracee Collins Carolyn Hutniak Neil Jamieson Bill Lyttle Anne Michaud Joanne Phillips Henry van Egteren



Acting Commission members 2017-2018 (not shown)

Kate Coolidge Bohdan (Don) Romaniuk Moin Yahya Rhonda Lemoine

The AUC looks forward

Since its inception, the Alberta Utilities Commission has consciously worked through a variety of means to be an instrument of, and conduit to, the regulatory future of Alberta in both conduct and programs, and an enabler around the future of efficient regulated utility services in this province.

This focus and efforts, drawn from the AUC's commitment to be a leader that delivers innovative and efficient

The themes of looking forward, improvement, adjustment, new initiatives and new directions to provide greater capability and greater dexterity were more evident than ever in the AUC's work.

regulatory solutions for Alberta, has always been evident. However, the themes of looking forward, improvement, adjustment, new initiatives and new directions to provide greater capability and greater dexterity were more evident than ever in the AUC's work in fiscal 2017-2018 and it could be seen across multiple

divisions and levels of the organization. The motivation is straightforward: The AUC is committed to being able to capably serve the regulatory demands of tomorrow's Alberta.

As Alberta's expert utilities regulator, the AUC has unparalleled tools and expertise to understand current and future requirements in the utility field.

Among the AUC's most visible efforts was its critical work in investigating issues and challenges around distributed generation. This was to help inform government policy development as it moves forward with efforts to encourage distributed and alternative generation by Albertans to help support the goal of providing 30 per cent of Alberta's generating capacity by alternative and renewable sources by 2030. That inquiry report, available on the AUC's website, is just the latest in a series of inquiries the AUC has led to provide information to policy-makers on emerging challenges. Earlier efforts included AUC inquiries into the Alberta smart grid, into the challenges around expanding hydroelectric power generation, and into ways to unify the treatment and rate-setting approach of regulated rates for natural gas and electicity.

The AUC also looked forward and acted to establish competent and knowledgeable expertise around the regulatory and adjudicative aspects of Alberta's emerging electricity capacity market, which will become operational in 2021. After sponsoring third-party economic research into capacity market economic issues (available on our website), the AUC moved to create a multidisciplinary internal team to explore the regulatory issues and challenges that lay ahead. Among other things, that team is working on ensuring the changes required in AUC procedures and adjudicative scrutiny are ready when needed. Some of those deadlines are as early as July 2018.

The AUC is ready and is ensuring it will be ready for changes to the sector it oversees. Our strong background in examining proposed generating facilities to ensure they meet the public interest is invaluable as we tackle the current and future waves of development of alternative and renewable energy such as solar, wind, biomass, geothermal and others. We are working

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Sumeer Sharma to ensure the same considerations that required traditional generation facilities were managed through their lifecycle and were established and run with due attention to environmental and social impacts, are applied to the newest methods of generation.

The AUC's core business is utility rate-setting, an area where the organization has demonstrated forward thinking and leadership for a number of years, after broadly implementing performance-based regulation as an alternative to the traditional cost-of-service regulation in early 2013 and applying it in limited

ways even earlier. The motivation was to create a better approach to rate-making that, unlike cost-of-service, mimics competitive, market-like pressures and is designed to limit rate increases to less than they might otherwise have been.

In 2017-2018, having carefully refined the AUC's regulatory approach in its PBR second generation decision in February 2017, the Commission moved to apply those improvements through PBR rebasing that both purposefully, and by its design, brings the effect of prior PBR efficiencies to bear for consumers.

The AUC's second generation PBR approach also brought changes to the utilities' expected efficiency stretch factor and instituted a less cumbersome regulatory approach to unusual capital expenditures, aimed at considerably broadening the application of efficiency incentives. Capital expenditures were separated into two classes, with different treatments, which will also increase regulatory efficiency by reducing the number of regulatory proceedings and enhancing the overall incentives of the utilities' 2018 to 2022 PBR plans. These steps were effected with the AUC's PBR rebasing decision in February 2018, and the AUC is already working to understand where and how PBR can be further improved.

Corporately or organizationally, the AUC implemented a suite of initiatives intended to position or better position the AUC with greater capability and capacity in the future, and for the future. Among them were enhancements to the AUC's eFiling system and separately, our website.

The AUC implemented a suite of initiatives intended to better position the AUC with greater capability and capacity in the future, and for the future.

A key eFiling improvement allows effective tracking of directives and conditions, part of a growing emphasis on monitoring and enforcement at the AUC. This tracking capability facilitates not only the increased emphasis on the AUC's existing and growing enforcement efforts, it will serve the expanded regulatory powers to develop and apply specified penalties across all of the AUC's decision instruments that were part of legislation passed in 2018. The tracking capabilities will underlay a great deal of work in the current fiscal year and well beyond.

> Also at the organizational level, the AUC took active steps to bolster our personnel and scope and depth of knowledge through a recruitment campaign to both expand our capacities and bring new energies, new expertise, new experience and new approaches to the AUC. As an expert regulator in a highly technical and specialized arena, renewal of the AUC's workforce is important to ensure the AUC has the right tools, professionals and expertise for the future.

> > Renewal was evident also at

the tribunal level, where three new extraordinarily capable Commission members completed their first full year of service, and in a bittersweet way as the AUC prepared for the departure of its first permanent chair, Willie Grieve. Among his many legacies is a corporate culture that measures where we are, while focusing on getting us where we need to be to tackle tomorrow's challenges.

Nothing reflects the AUC's preparations and readiness for the future more concretely than our new offices in Calgary, which not only provide better, more effective facilities for our staff and for hearings, with enhanced technological improvements to serve stakeholders and staff more efficiently and more effectively, but also reduce the AUC's costs of operations now — and in the future. This was likely the AUC's largest single project in 2017-2018 and we believe it serves as a tremendous example of how we carefully work to prepare ourselves for tomorrow's world and tomorrow's challenges.

Special project: Building Change

A very substantial organizational focus of the AUC in 2017-2018 was a highly unusual project, the relocation of the AUC's Calgary headquarters after 10 years in our original home in downtown Calgary, and necessary upgrades to our facilities in Edmonton.





he expiration of the AUC's existing Calgary lease amid a remarkably abundant market for office space provided a singular opportunity to acquire purpose-built facilities at an advantageous cost. The AUC acted.

This project required an intricate, careful and methodical approach at all stages; from exploration, development, decision and execution. It included consultation across the organization, thoughtful exploration of options and applying a carefully crafted plan.

Beyond the physical move of every Calgary-based member of the AUC's personnel, their office contents, the AUC's

records and associated materials, and IT hardware, the move had substantial implications in many areas, including the AUC's information systems, its Calgary hearing room and associated technology, and even our organizational character. It was as big a project as the AUC has tackled in its 10-year history.

The AUC relocation saved \$10 million and resulted in highly efficient work , flexible meeting facilities and technological improvements

More than a year of careful planning culminated in a flawless move over the Easter weekend at the end of fiscal 2017-2018, with modest but new offices; a new, more technologically advanced hearing room in a new Calgary location, and overall a more effective working space to serve the AUC's stakeholders.

The relocation proved worthwhile in many respects, with a highly efficient new working space that includes greater flexibility in the use of meeting spaces, technological improvements and substantial financial savings: The move will save the AUC more than \$1 million a year (\$10 million-plus over 10 years) in lease costs and provides the organization with purposebuilt facilities with upgraded IT and communications capabilities that position the AUC well for the future. We were pleased that overall, the expense and investment came in materially lower than what had been approved by Alberta Treasury Board for the project. The possible office move in Calgary also prompted an indepth review of our Edmonton facilities, which include staff offices and a hearing room. The review led to significant renovations and information technology upgrades to accomplish important enhancements that modernized our Edmonton workspace and hearing room. That too was completed on time and under budget.

None of this would have been accomplished without a massive planning effort and active monitoring of progress and adjustments along the way, with a central focus on, and dedication to, budgets and timelines. This included an internal multidisciplinary team with representatives from across the

> organization to ensure broad organizational engagement, breadth of involvement and insight, a detailed multi-level communications plan, and the involvement of professional advisors to acquire lease space, design and develop the new offices and complete construction. Special AUC teams were struck to

Special AUC teams were struck to focus on key facets of the move, such as information technology, procurement, architecture and design, the new hearing room, and office furnishings. Staff engagement at all levels was a central priority and outcome of the process, which along with new offices, produced a renewed organizational cohesiveness and more effective tools for the AUC. All under budget and on time.

The approach mirrored ongoing efforts by the AUC to improve how it works and how it regulates while ensuring it not only meets or exceeds its statutory obligations, but cultivates an effective atmosphere for its personnel and those it regulates to produce regulation in the public interest. That approach has permitted the AUC to reduce the regulatory cost per ratepayer by more than 22 per cent since 2008 - and over that period to save the equivalent of the cost of an entire year of AUC operations.

Corporate Services

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Tosbin Joseph

he 2018-2019 year was an extraordinarily busy and important one for the AUC's corporate services division. This group oversees the administrative, financial management, human resources, information technology, and office management functions of the organization. Its mission is to provide the organizational infrastructure to support the AUC in achieving

is objectives and sustaining its values. At a platform or functionality level, the division is responsible for much of the interface with stakeholders including the public, landowners and utilities, which must be robust, reliable and user-friendly.

Corporate services met all of its internal performance measures and helped produce fiscal results ending in a small Corporate services met all of its internal performance measures and helped produce fiscal results ending in a small surplus and a staffing count that came in under projections.

priority projects coincided to create a remarkably ambitious set of objectives for the division, with important and sometimes multiple initiatives, in each of information technology, compensation administration, human resources, and particularly, facilities management.

A central priority was a very unusual project, the

relocation of the AUC's Calgary headquarters after 10 years in our original home in downtown Calgary, and the refreshing and renovation of our office facilities in Edmonton. The expiration of the AUC's existing Calgary lease amid a remarkably abundant market for office space provided a singular opportunity to locate ourselves in purpose-built facilities at an advantageous

surplus, and a staffing count that came in under projections.

This past fiscal year a number of time-sensitive and high-

cost. The successful Calgary relocation effort is covered separately elsewhere in this report.



Importantly, the more traditional core work of the corporate services team and its other priority projects did not suffer because of the Calgary office relocation. These included work across the human resources spectrum in a number of areas:

 The AUC simplified and streamlined its existing performance management processes as we refined a central part of the organization's human capital plan; an integrated approach

to optimizing how we deal with, compensate, evaluate and support our personnel.

- We moved forward with the AUC succession planning model, derived with guidance from third-party expert consultant Mercer LLC, and began the initial stages of a structured and methodical future leaders program.
- Corporate services staff and its leadership worked diligently to identify how the AUC, which since its inception in 2008 has relied on a performance-based compensation model, will satisfy the requirements of the *Reform of Agencies Boards and Commissions Compensation Act*. This included working with

the government's Public Agencies Secretariat. This work is contuinuing.

Corporate services was involved in several staffing projects, including efforts centred in government around Commission member appointments and reappointments. This work is continuing in 2018.

There was a big focus on IT improvements, including

Overall, three major IT enhancements were completed.

the relocation of our offsite data centre and a multi-prong initiative around cyber security. This included strengthening our

IT system incursion barriers, cyber security training for all AUC staff and Commission members, and a simulated phishing exercise. Overall, three major IT enhancements approved by the AUC executive leadership were completed.

The AUC relaunched a complete website redesign, built using internal AUC resources, and enhanced and added to functionality in our eFiling system. That functionality included an internal database on precedents, opinions and appeals, and AUC decisions and orders compliance tracking.

Facilities

Trevor Richards

he AUC Facilities Division had a busy year, fuelled by intense interest in renewable energy generation projects. The division also accomplished significant and important milestones around its responsibilities both in pipelines and in its AUC decision compliance-tracking efforts.

The division deals with matters related to applications for utility infrastructure, such as transmission lines and substations, electricity generating facilities, and consumer natural gas pipelines and associated structures. They are received, are subject to AUC scrutiny and assessment, become part of a proceeding and, depending on their nature and the extent of concerns about the project, tested in an evidence-based, oral or written hearing. The division also

In 2017-2018, every generation application the AUC recieved involved renewable or alternative generation. Through streamlining, we estimate utilities are saving \$1 million a year and the AUC has shaved 90 person-days from staff requirements.

generation capacity comes from renewable sources. The facilities division and the utility companies that it deals with have benefitted considerably from past and continuing efforts to streamline how facilities applications are approached and scrutinized without limiting the input of interested parties or the required regulatory scrutiny. We estimate that on a combined basis utilities are saving \$1 million a year, and the AUC has shaved 90 person-days from staff requirements because of these changes.

monitors utility compliance with the conditions and directions included in the facility decisions we issue.

The AUC reviews and must approve all generation projects in Alberta of more than five megawatts, including renewables, to ensure they satisfy the public interest and meet economic, social and environmental requirements.

In 2017-2018, every application the AUC received for

In compliance, the division completed work on the AUC's eFiling system to efficiently and transparently track facilities decision compliance, which was rolled out to industry in March 2018.

generation projects involved renewable or alternative generation;

largely wind, with some solar. In part this reflects the policy

encouragement of the Alberta government under its Climate

Leadership Plan to ensure by 2030 that 30 per cent of Alberta's

In the consumer natural gas pipelines area, the division completed an extensive consultation and changes to AUC Rule 020 that, among other things, strengthened the required participant



involvement program for applicants to more closely align with the requirements for electric facilities. Additionally, the AUC sought, supported and received a third-party review of its approach to high-pressure pipeline oversight.

This review, completed by consultants MNP LLC, assessed our approach to high-pressure pipeline regulation, and examined

The AUC sought, supported and received a positive third-party review of its approach to high-pressure pipeline oversight.

whether Alberta's consumer natural gas pipelines are installed and operated safely in accordance with the legislated regulatory framework. MNP LLC found the AUC's approach to be satisfactory.

Nonetheless, following the report, the AUC is implementing recommendations for improvements. At the same time, the AUC is currently turning its attention to refining and reinforcing its oversight of low-pressure, or distribution pipelines which will include working with the rural utilities branch of Alberta Agriculture. Generally in the pipelines area, facilities and law division staff are working on environmental reviews for gas utility pipelines with Alberta Environment and Parks.

With its legislatively mandated responsibility to consider

environmental matters, the AUC has always had a strong focus in this area, and has worked in alignment with Alberta Environment and Parks. In 2017-2018 the AUC significantly strengthened its relationship with Alberta Environment and Parks through a memorandum of understanding on roles and responsibilities for wind- and solar-powered generation facilities that encompasses the application of the AEP's wildlife directive and pre- and postconstruction requirements for facilities developers. Similar work is underway with the AEP to cover wildlife directives for transmission lines and substations.

In a similar vein, the AUC worked closely with AEP around the issue of conservation and reclamation as it relates to renewable generation, which has been an emerging issue with the rapidly growing interest in renewable generation. Wind and solar power generation were added to the list of activities covered by the *Environmental Protection and Enhancement Act* in the spring of 2017. Exact requirements are being developed by Alberta Environment and Parks.

Organizationally, the AUC's expertise in and staff responsibilities for noise issues resides in the facilities division. In 2017-2018, staff administered a review of the AUC's noise rule, AUC Rule 012: *Noise Control*, including an assessment of policy and technical issues related to predicted sound levels arising from project construction delays, to multiple facilities in close proximity, and to other complex and controversial noise issues. A revised Rule 012 is expected in 2018-2019.

Tanya Wilson

Andreit Andrei

he AUC Market Oversight and Enforcement Division is responsible for many of the organization's most important regulatory functions, including applications related to accusations of misbehaviour in the wholesale electricity market; code of conduct requirements for service, safety and performance for regulated utilities; consultations around AUC rule changes,

Efforts of the Market Oversight and Enforcement Division during the last fiscal year were focused on enhancing and reinforcing the AUC's compliance and enforcement responsibilities. maintenance, and updating; and enforcement activities related to Alberta law, AUC rules, decisions and orders.

In 2017-2018, the division also led the AUC's important work to inform government policy development through the governmentassigned review of distribution-connected generation, which is discussed separately elsewhere in this annual review. Similarly, the division was also home to the AUC's newly-developed capacity markets group, intended to properly position the AUC with the expertise around the responsibilities and oversight that will flow from the development of an Alberta capacity market scheduled for 2021. A focus on our capacity markets efforts can also be found separately in this review.

A number of efforts of the market oversight and enforcement division during the last fiscal year were focused on enhancing and reinforcing the AUC's compliance and enforcement responsibilities. These included:

- Sharpening AUC internal skills to participate and complete audits to satisfy the utility compliance audit requirements under the *Code of Conduct Regulation*. This encompassed identifying and engaging a third party expert (MNP LLC) to support the AUC's *Code of Conduct Regulation* audit program, developing an audit framework, taking training in audit execution and completion, and scheduling audits with ATCO, Direct Energy and EPCOR. Those audits will be conducted in 2018-2019.
- Through a letter of enquiry process, conducted an investigation into non-compliance with the wildlife protection provisions of an AUC decision related to the Oldman 2 Wind



renewable generation projects

it scrutinizes environmental

matters carefully.

Farm. The AUC's enforcement group shepherded a cooperative resolution that ensures compliance with Alberta statute and AUC decisions, and saw the facility's owner donate \$280,000 for habitat conservation. In the AUC's process of review of renewable generation projects it scrutinizes environmental matters carefully, and ensures adherence to a range of requirements including Alberta Environment and Parks' wildlife directive. The AUC regularly includes environmental

conditions in it's decisions, and is prepared to enforce them through a variety of means.

 Preparing an in-depth report for the Minister of Energy on the ability of, and barriers to, Alberta's six self-operating rural electrification associations

meeting the AUC's Rule 020 on utility service quality and reliability monitoring and reporting, and on AUC Rule 004, on the tariff billing code. These relate to minimum service standards, reliability performance, customer satisfaction, billing and metering accuracy, and similar matters. Legislation introduced early in 2018-2019 will require REAs to meet the requirements of AUC rules 020 and 004.

In other work, the market oversight and enforcement division marked a milestone in December 2017, with the issuance of a decision bringing to a close a complaint by Milner Power on the Alberta Electric System Operator's methodology in calculating transmission line losses among generators for the period January 2006 to December 2016. This proceeding was extraordinarily complex, characterized by court appeals of AUC interim decisions, involved multiple proceeding modules and took place over a

number of years. Its completion was In the AUC's process of review of a major accomplishment for the AUC and our market oversight and enforcement group.

> Additionally, the group was active in other areas of its retail oversight, specifically through amendments to AUC Rule 024:

Rules Respecting Micro-Generation to reflect changes in regulation permitting aggregated sites and boosting the capacity limit to five megawatts. This included revising and releasing an updated Micro-Generation Guideline. The group also ensured a smooth transition in load settlement functions in the City of Lethbridge service area with no disruptions in customer billing.

Law

Sara Albert

The 2017-2018 year had many challenges and many accomplishments for the AUC Law Division, which provides legal advice, support and expertise to the Commission and the organization across all initiatives and all proceedings.

It also provides legal insight on selected topics to AUC individuals at all levels, and at an organizational level to improve the AUC's familiarity with legal, legislative and procedural matters.

The division and its personnel play a critical role in almost all of the AUC's activities, as well as representing the agency in appearances before other tribunals and appeal courts including

No request for an appeal was successful in 2017-2018, and no such action has been successful since the AUC was launched in 2008.

the Court of Appeal of Alberta and the Supreme Court of Canada. No request for an appeal was successful in 2017-2018, and no such action has been successful since the AUC was launched in 2008, a record we believe indicates the quality of the more than 6,000 regulatory decisions the AUC has issued during its tenure.

A sampling of the some of the more prominent proceedings law division personnel supported include:

- Performance-based regulation rebasing compliance.
- Milner Transmission Line Loss Phase 2.
- MSA complaint on the AESO's Historical Trading Report.
- Distributed Generation Inquiry Report.
- ATCO Electric 2013 and 2014 transmission deferral accounts.
- AltaLink Management Ltd general tariff application.
- EPCOR Energy Alberta GP Inc. 2018-2021 energy price-setting plan.

Along with supporting the Commission tribunal and all of the AUC's other divisions, the law division also completed a number of special projects in 2017-2018, including completing decision templates used to write decisions on applications for review and variance of Commission rulings to reflect amendments to AUC Rule 016, delivered a presentation on developments in Indigenous law to tribunal members and executive leaders, and developed a tutorial for AUC lawyers on water utility complaints or rates proceedings.



Supporting the AUC Distributed Generation Inquiry was a major project of the division including process development, and written and oral hearing portions of the proceeding.

A central law division special project was the successful

development and launch of an internal database on appeals and legal precedents for use by AUC staff, from their desktop computers.

This project required working closely with the AUC's information technology staff, creating summaries of leave to appeal and full appeal cases, cleaning up and standardizing existing precedents, building user guides and a training video. It has received very positive reviews from AUC staff and helped to raise the general level of knowledge and familiarity around appeals and precedents.

An affiliate database available to the public and applicants is a facilities decision database, a tool to assist stakeholders researching issues raised frequently during facilities proceedings. It groups facilities decisions by type of decision, for example major decisions, transmission needs decisions, combined needs and facility decisions, transmission facility decisions, power plant decisions, micro-generation decisions, gas utility pipeline

> decisions, electric utility pipeline decisions, etc., to allow individuals to familiarize themselves with how issues were treated in the past.

The law division is also responsible for post-decision applications for intervener costs in proceedings before the AUC, and assisting the AUC's consumer relations and market oversight and enforcement divisions with the handling of complaints. In 2017-2018, the division adopted and met a new performance measure to issue at least 20 per cent of cost decisions ordinarily due

within 90 days, within 60 days. The division continues to pursue opportunities to streamline and make more efficient its activities while ensuring legal requirements are fully met.

The launch of an internal database on appeals and legal precedents for use by staff contributes to clear, principled decisions by the AUC.

Rates

Elena Deryabina

Setting rates for the delivery of utility service such as transmission and distribution is a core regulatory responsibility of the AUC organization and lies at the centre of the necessity of having an independent expert tribunal to fairly determine reasonable prices for monopoly suppliers.

Ensuring consumers receive safe and reliable utility services at just and reasonable prices, while utility owners have a reasonable opportunity to earn a fair return on their investment is a complex undertaking. It is often highly technical work, dealing with values that run into the billions of dollars.

The AUC's rates responsibilities cover an Alberta regulated rate base of nearly \$27 billion, with more than three million consumer sites, and an annual regulated revenue requirement of \$4.3 billion.

Against this background, in

2017-2018, the workload in the AUC's rates division encompassed several prominent proceedings and/or decisions, including the 2018 Generic Cost of Capital, Performance-Based Regulation Rebasing, the EPCOR 2018-2021 Energy Price-Setting Plan, reconciling AltaLink's 2014 and 2015 direct-assign capital deferral

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accounts, the 2018 Alberta Electric System Operator tariff, and the AltaLink 2017-2018 General Tariff Application. There was also a heavier-than-normal workload around water utility applications. Rates division staff and leadership were also involved

> in the important formative stages of the AUC's capacity markets team in preparation for profound governmentled changes in the provincial electricity sector. They continue to support this critical endeavour, with work on bill impact modelling, cost allocation and rate design.

Vanessa Godziuk

Additionally, the AUC's extensive consultation and research efforts on the government-assigned distributionconnected generation (DCG) review included rates contributions to understand the rates implications of increased DCG adoption, as well as understanding some of the engineering considerations. The AUC's inquiry final

report was delivered to the Minister of Energy on December 29, 2017, to help inform government policy making around expanding DCG use.

The AUC's rates expertise also supported a number of utility facility applications and proceedings for projects throughout



Alberta. In particular these included the Jasper, Alberta isolated generation/transmission project from the Alberta Electric System Operator (AESO) and AltaLink, the east Edmonton-area Anthony Henday substation needs identification document, the ENMAX

transmission reinforcement project in downtown Calgary, and matters relating to ATCO Pipelines' weld integrity issue.

Similarly, the rates division provided support and expertise to the AUC's market oversight and enforcement group to understand the implications for the AESO tariff of matters under consideration in markets proceedings, including Module C of the AUC's line loss proceeding, and a complaint by Enel Alberta Wind Inc. related to how costs of an interconnection were classified by the AESO.

From an internal perspective, the rates group was focused on several initiatives aimed at improving its performance, and ultimately that of the AUC. This is aligned with the AUC's The rates group focused on initiatives aimed at improving the AUC's performance. The AUC's approach as a performance-based organization is to seek to improve efficiency in its own operations, as well as in those it regulates.

Some of these initiatives included:

 Enhanced training for staff on recent developments in rate design to reflect evolution and developments, particularly technological developments, in the utility industry. Shifts

> around climate awareness, emission reduction and greater DCG use are also germane to the AUC's future need for expertise. The AUC is committed to being prepared to adroitly regulate the utility of the future, including particularly the rate aspects.

> • A study into how carrying costs are treated, to improve uniformity and reduce the likelihood of requests for review and variance of AUC decisions.

• Sharpening internal process guidelines on team communications in decision writing to improve outcomes.

 Completing the performance-based regulation rebasing process. This is the framework, or basis on which future
PBR administration will depend. It was extremely intricate and challenging work

general approach as a performance-based organization that seeks to improve efficiency in its own operations and among those it regulates. that has broad and important implications for rates across a large swath of Alberta's regulated utilities.

Performance stats and indicators

962 applications received

572 decisions issued

274 consultations conducted

14 information sessions

620 customer information requests 178 oral proceedings initiated

53 oral hearing days held

85 renewable facility projects received

13

fulltime employees at

year-end

Zero AUC decisions successfully appealed since 2008 **2.64** average days lost to illness per employee

\$10.24 cost per regulated site/ ratepayer annually

81 per cent

of performance measures met (without factors beyond AUC control) 85 per cent of operational plan initiatives completed

22 per cent decrease in cost per ratepayer since 2008

3 major information technologies upgrades completed



100 per cent AUC staff with Indigenous awareness training

26.3

per cent increase in site count/ratepayers since 2008



Special project:

Distributed-Connected Generation Review

A key project of the entire AUC in 2017-2018 was the completion of a review into distributionconnected generation, assigned by the Alberta cabinet and intended to inform government policy development around encouraging more distributed generation in Alberta.

hat policy goal is part of Alberta's Climate Leadership Plan to ensure 30 per cent of Alberta's electricity supply comes from renewable sources by 2030.

The inquiry was led by a panel of three Commission members including chair Willie Grieve, along with Tracee Collins and Joanne Phillips. The staff aspects of this DCG inquiry were

led by the market oversight and enforcement division. Their work was extensive and included consultations with dozens of individuals and groups representing a spectrum of interests from municipalities, generators, utilities, renewable energy associations, the Utilities

The AUC had input from municipalities, generators, utilities, renewable energy associations, the UCA, the Metis Nation of Alberta, rural electrification associations, the CCA and others.

Consumer Advocate, energy advocacy organizations, the Metis Nation of Alberta, rural electrification associations, the Consumers Coalition of Alberta, and others.

Highlights of the AUC's terms of reference to review distributed generation include considering:

- The current status of renewable and alternative distributionconnected generation in Alberta.
- The current state of Alberta's distribution systems, billing and

settlement systems, and supporting acts, regulations and rules.

- Enablers and barriers for broader deployment of alternative and renewable distribution-connected generation in Alberta.
- Methods for assessing costs and benefits of infrastructure investments that may enable and facilitate broader

deployment of alternative and renewable distributionconnected generation and efficient energy use.

• Current and potential regulatory approaches to consider alternative and renewable distributionconnected generation when planning the development of

distribution networks.

- Opportunities to improve processes for connecting alternative and renewable distribution-connected generation.
- The potential to align the planning and development of Alberta's distribution systems and broader deployment of alternative and renewable distribution-connected generation with government objectives of providing clean, affordable and reliable energy to Albertans.



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programs and processes.

The inquiry's final report was delivered to Energy Minister Margaret McCuaig-Boyd in December 29, 2017. She described it as "an important part of our policy development process."

A key observation of the Alberta Utilities Commission was that there is a critical role for government in the growth and development of DCG, providing educational opportunities for Albertans who wish to participate in DCG to create a greater awareness of DCG options, financial programs and processes.

As directed, no recommendations were provided, however the report found that generally, participants in the review:

- Believed changes to the Microgeneration Regulation to include projects up to five megawatts had been a significant enabler of smallscale DCG, including community generation.
- Found Alberta's distribution systems currently have sufficient capacity to accommodate additional distribution-connected generation at relatively little cost. Distribution firms will need

to enhance their systems to accommodate the intermittency of solar, wind and other renewables, to maintain reliability.

• Believed that as the capacity to accommodate more

distribution-connected generation decreases, distribution wire owners will have to make investments to accommodate further growth.

• Understood that in the context of these future investments, cost allocation and pricing issues are controversial. The vast majority of participants argued that rates should continue to be based on the wire owners' cost of providing service and any required subsidies should be transparent and administered outside of rate design and tariff structure.

The full report is available on the AUC website at www.auc.ab.ca. The AUC is pleased to be a resource for government to help inform policy development. In the past, the AUC has completed inquiries

into the Alberta Smart Grid, hydroelectric power generation development, and harmonizing default rate-setting approaches for electricity and natural gas, at the direction of government.



www.auc.ab.ca

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