



AUC

Alberta Utilities Commission

Alberta's independent utilities regulator

2018-2019 Annual Review

A transition is underway

in Alberta's utility industry, driven by shifts in the market, **technology, public policy, consumer behaviour** and environmental factors.

The AUC seeks to
**understand how this
transition will play out,
and to ensure effective
management of change.**

This 2018-2019 annual review is the last time it will be presented in this format.

The AUC is embracing new approaches to reinforce its accountability, responsibilities and changing times. It is committed to providing effective and efficient regulation in a cost-effective manner and only where necessary.

We will publish our strategic plan each year with a straightforward explanation of what we are planning to do and why.

We will develop and publish an annual report card, to replace the annual review, which will include an assessment of the impact of our regulation on the companies we regulate. We will use a transparent and collaborative glass door approach to understand perspectives and issues and to help shape solutions.

We will ensure the AUC is adaptive and responsive as it manages the impacts of technology and societal shifts, the dynamics of competition and markets, evolving infrastructure and its impact on regulation, efficiency and limiting regulatory burden,

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Welcome to the AUC's 2018-2019 annual review

Mark Kolesar, Chair

Our goal in this document is to help you understand the important work the AUC does in delivering innovative and efficient regulatory solutions for Alberta, the great pride and care we take, the character we cultivate in our organization and reflect in our decisions, and the challenges we face in working in Alberta's public interest.

This review finds me in a new role as chair of the AUC. I was appointed chair July 2018 after 10 years as a Commission member and significant time as vice-chair. This reflects the theme of change and challenge that was everywhere in 2018-2019, that accelerated into the current year and which will dominate our future.

My first priority as chair, as we transition to new leadership, new

times and new challenges was to examine our structure and practices to ensure the AUC is positioned to succeed in the years ahead. Changes flowing from that are discussed elsewhere in this report.


It is centrally important to understand the changes buffeting the utilities sector generally and particularly those linked to the quickening pace of adoption of new technology. This led to the AUC's currently underway distribution inquiry and was supported by key organizational changes. The inquiry will reveal the pressures and requirements of distribution system regulation in the future, including new avenues for market-based solutions. We need to be out front in examining whether and how rate structures will require adjustment.

Understanding the constituencies we support and regulate was central to my efforts to meet personally with regulated companies, consumer groups, industry and capital market participants. I solicited their endorsement on the key challenges for the electricity and gas sectors in the short and long term, the AUC's role in responding to those challenges, and what initiatives or issues must be given priority.

All of this is predicated on ensuring the AUC – its staff, its leaders and its Commission members – have the right skills and expertise to recognize and manage the challenges of the future. To this end, the AUC is now focused on ensuring it is an adaptive, learning-based organization that is demonstrably transparent, flexible, collaborative and responsive. These are the tools for success in Alberta's evolving regulatory landscape.

A message from Bob Heggie

Chief Executive



The AUC's many positive accomplishments in 2018-2019 underlined a spirit and campaign of organizational renewal against a backdrop of major assignments from government and a demanding schedule of regulatory decision making.

The AUC has a culture of operational self-examination to improve its performance; we track and measure our progress continuously. Our measures change annually. In 2018-2019 we graded our performance against 32 performance measures. We met 25 of 32 measures or 78 per cent from a binary, yes-or-no perspective, and 28 of 32 or 87.5 per cent when factors beyond our control were considered. Externally, an independent third-party survey found 88 per cent of our stakeholders were satisfied or very satisfied with the AUC's overall performance, with more than half very satisfied.

Along with changes to our Commission leadership in new chair Mark Kolesar and new vice-chairs Anne Michaud and Henry van Egteren, we welcomed new Commission and acting Commission members and underwent a major refreshing of our executive ranks. Along with an

organizational shift to place greater resources on technology impacts in our rates division and economic comprehension in our facilities division, this allowed a new generation of young AUC leaders to bring their skills to bear. We are pleased that those staffing needs were ultimately met by internal candidates.

We started working in our new Calgary offices, which have delivered flexibility, greater efficiency and \$13 million in savings over the life of the lease. In Edmonton, upgrades improved the functionality of our space there.

The AUC receives no funding from government. Its costs are covered by consumers through an administration fee collected by regulated utilities, however, the AUC's budget is reviewed

annually by Alberta Treasury Board. In the 11 years of its existence the AUC's cost per consumer is down more than 20 per cent due

to continuous efforts to improve efficiency, including additional efficiencies achieved in 2018-2019.

The evolution of Alberta's regulated utilities sector and shifting societal expectations and interests produced an increase

in the complexity of applications received in 2018-2019. In our facilities division, a surge in applications for renewable generation required the consideration and assessment of new matters and development of new approaches on public interest determination. Different approaches were also required in the AUC's approval of the sale of portions of an AltaLink transmission line to businesses controlled by

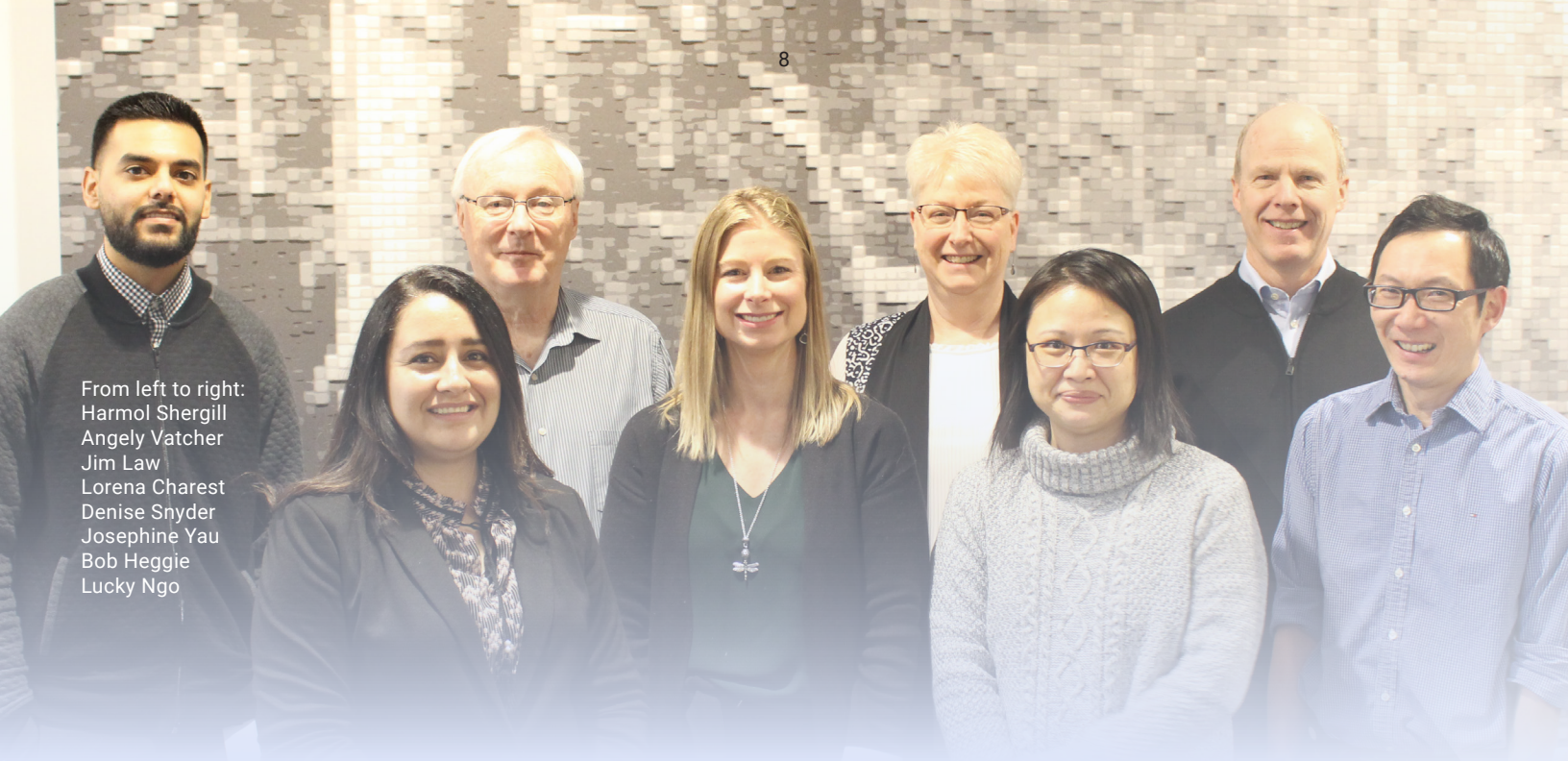
the Piikani Nation and Blood Tribe. And, in the 2018 Generic Cost of Capital decision, which set returns and financing structures for a three-year period, the AUC began to move to a less burdensome, more efficient, formula-based approach, from a lengthy hearing-based approach.

Many of our activities in 2018-2019 were driven by legislative change expanding the AUC's powers, assigning specific tasks and exploring potential changes to the province's electricity system. The AUC was tasked through *An Act to Secure Alberta's Electricity Future* to expand its examination of market rules from the Alberta Electric System Operator, including rules that could establish a capacity market for electricity.

"Much of our activities in 2018-2019 were driven by legislative change expanding the AUC's powers, assigning specific tasks and exploring potential changes to the province's electricity system."

2018-2019 highlights:

1. **New Commission leadership**
2. **New acting Commission members**
3. **New senior executive personnel**
4. **Increased resourcing for technology impacts and economics**
5. **New efficient workplaces saving \$13 million**
6. **Increasingly complex applications**
7. **Generic Cost of Capital**
8. **Satisfying legislative/mandate change**
9. **Changing societal expectations**
10. **In-depth markets scrutiny**
11. **AUC Distribution Inquiry**
12. **Pursuing regulatory burden reduction**



From left to right:
Harmol Shergill
Angely Vatcher
Jim Law
Lorena Charest
Denise Snyder
Josephine Yau
Bob Heggie
Lucky Ngo

This assignment triggered an intense and complex AUC proceeding process to satisfy legislated timelines, while ensuring adequate industry consultation and engagement and a methodical and extensive analysis of the new proposed rules.

The AUC was also given enhanced powers to develop specified penalties, a series of set fines for infractions of utility consumer billing rules and requirements. A new penalty framework was in place for January 1, 2019 and the first penalties issued in the spring of 2019. These are an important tool for the AUC, aimed at ensuring utilities operate in compliance with rules and regulations.

As an expert regulator, the AUC monitors the sector it regulates and investigates developments expected to have an impact

on what and how it regulates. This led to the December 2018 launch of an AUC inquiry into the Alberta distribution system on the impact and implications of technology. This will help the AUC understand how technology adoption may impact the utilities industry and new providers, and if and how the regulatory system should evolve. It is driven by new technologies and innovations that are transforming both the electric and natural gas distribution networks, including the potential for electric and natural gas utilities to displace one another.

“As an expert regulator, the AUC also monitors the sector it regulates and investigates developments expected to have an impact on what and how it regulates.”

The AUC is a creature of statute and a resource for government, and implements policy determined through legislation. Government

policy changes, reflecting evolving circumstances, and shifts in priorities. Shortly after the completion of the 2018-2019 fiscal year there was a change in government which

led to new policy directions with a greater focus on operational efficiency, regulatory streamlining and the reduction of unnecessary regulatory burden.

The AUC is committed to delivering efficient and effective regulation only where and to the degree it is required. It welcomes the opportunity to develop and implement more efficient approaches.

As we embark on a new era at the AUC, including new leadership, the AUC is prepared to meet the considerable regulatory challenges that undoubtedly lie ahead. With talented, dedicated staff and Commission members, and a first-rate set of refreshed regulatory tools, I am confident we will continue to succeed in achieving our goals.

The AUC held a roundtable on reducing regulatory burden in early October 2019. At

the roundtable we provided a forum for broad consultation with stakeholders to explore ways to further reduce regulatory burden. Key areas of focus included AUC rules or procedural steps that may have become

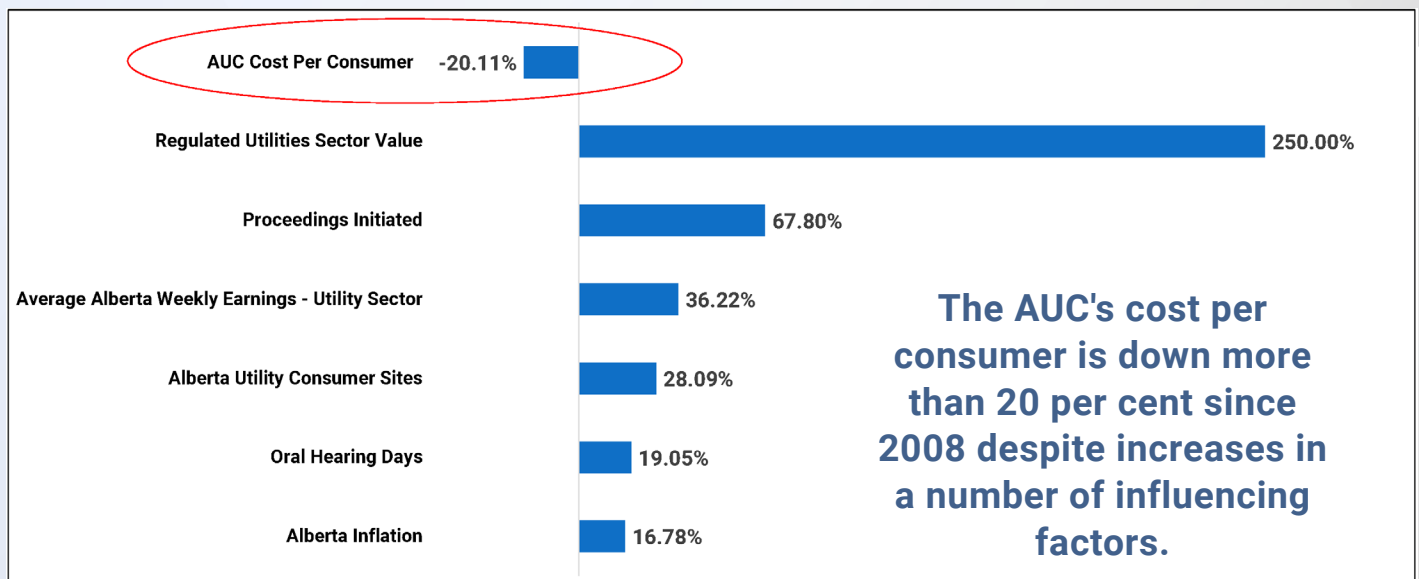
outdated or unnecessary, and opportunities to streamline and improve regulation and adjudication processes.

We are excited about the environment of change and the tremendous opportunities it represents. The AUC's vision has been and is to be

a trusted leader that delivers innovative and efficient regulatory solutions for Alberta. With our renewed focus, refreshed Commission and staff leadership personnel, and commitment to being collaborative and responsive, we are well positioned to do so.

Bob Heggie
Chief Executive

"The AUC has always sought efficiency and accountability in its work and at the roundtable will consult broadly with stakeholders to explore ways to further reduce regulatory burden."





Commission members

(From left to right)

Joanne Phillips

Carolyn Hutniak

Tracee Collins

Mark Kolesar, Chair

Henry van Egteren, vice-chair

Kristi Sebalj

Neil Jamieson

Anne Michaud, vice-chair



Acting Commission members (not pictured):

j'Amey Bevan

Patrick Brennan

Merete Heggelund

Koren Lightning-Earle

Bill Lyttle

Rick Robinson

Bohdan (Don) Romaniuk

John Whaley

Facilities



From left to right:
Brij Modha
Abhinav Ayri
Kloria Wen
Geoff Bourque

Changing societal expectations and industry opportunities, the implications of new market entrants in generation alongside a rush to renewable generation and the effect of quickly evolving technology were front and centre in the work of the AUC facilities division in 2018-2019. Much of the work was focused on renewable generation around both wind energy and solar, and on conversions of coal generation to natural gas-fired - mirroring the growing and changing generation mix in Alberta:

- The AUC approved eight new solar projects and received applications for 15 additional projects.

"The AUC approved eight new solar projects and received applications for 15 additional projects."

- The AUC approved three coal-to-gas conversions involving large, legacy generating facilities and finalized the approval of a fourth. All told, this involved more than 3,790 megawatts of generation.

A switch to natural gas from coal reduces greenhouse gas emissions by 40 per cent.

- The AUC held a detailed proceeding around and approved with extensive conditions the largest wind turbines ever proposed in Alberta, at the Sharp Hills Wind Project near Oyen.
- AUC dealt with overlapping wind power projects for the first time, ensuring the decisions were coordinated, cross-referenced each other and were released on the same day.

A major focus of the division was on finding ways to improve its processes, shorten timelines and to streamline or eliminate AUC review where prudent and practicable. There were also developments related to the AUC's organizational efforts to improve responsiveness and comprehension, such as the establishment of a technical assessment group with economics expertise to better understand non-market valuation of project impacts in determining the public interest. Both of these reflect evolution of the AUC's adjudicative expertise approach to reflect contemporary trends in and needs of society, industry and in government.

Along a renewal of its approaches and structure, the leadership of the facilities division was renewed when AUC law division veteran JP Mousseau replaced the retiring Wade Vienneau. Mousseau brings a tremendous background and a commitment to pragmatic, effective approaches to the fore. The AUC ensures, through an evidence-based process, that all projects are sited, constructed, altered, operated and

decommissioned in the public interest with a particular focus on environmental, social and economic factors. This includes land use, impacts on flora and wildlife, social impacts such as noise and glare, impacts on communities, and remediation.

The infrastructure in question is as essential, making up the electricity and natural gas networks that power and heat Alberta businesses, institutions and homes and underpin Alberta society and industry.

As in all areas of the AUC's operations, the facilities division has in place internal and external performance measures, and it performed well against those benchmarks. Nearly 94 per cent of need, electric, and gas pipeline facility decisions were issued within 180 days of the application being deemed complete. The division's decision-writing performance metric for proceedings not requiring an oral or written hearing is 30 days. The division's performance measure for proceedings requiring an oral or written hearing is 90 days. One hundred per cent of

the facilities decisions issued in 2018-2019 (254) met this performance measure.

Across all applications, 74 per cent were completed within 60 days when factors beyond the AUC's control are considered.

The construction and operation of utility transmission and generation infrastructure has many impacts, from direct financial implications for ratepayers, to economic, social and environmental effects for neighbours and communities. Because of these impacts, the AUC has a central public interest regulatory role and reviews and decides on applications to build transmission lines, substations, consumer natural gas transmission lines, power plants and associated infrastructure. For all but power plants, the AUC determines first if they are needed, and secondly if the design and

location are in the public interest. The AUC does not determine need for power plants because generation is deregulated in Alberta and investment decisions are determined by supply and demand.

This work can be – and often is – intricate, but frequently is straightforward if the applications are limited in their scope and impacts. The

"The infrastructure in question is as essential, making up the electricity and natural gas networks that power and heat Alberta businesses, institutions and homes and underpin Alberta society and industry."

facilities division worked to speed the processing of such applications, while pursuing further improvements and greater efficiencies. And so regulatory initiatives were a key facet of the facilities division's work in 2018-2019. Among them were:

- Amendments to AUC Rule 012, the rule on noise requirements for utility facility developments in Alberta. Three rounds of collaborative consultation with stakeholders were completed, focusing in some cases on highly technical,





expert matters to improve the clarity of the rule and bring greater certainty to industry and other stakeholders.

- Amendments to AUC Rule 020, the rule on processing consumer natural gas pipeline amendments dealing with administrative corrections. The result was that these minor licence amendments will be filed directly by the pipeline companies to the Alberta Energy Regulator, which supports the AUC in its oversight of natural gas pipelines and their safe operation.
- The division worked to establish an AUC rule setting out post-approval monitoring requirements for wind and solar generation projects through consultation with industry and other stakeholders. This is intended to greatly streamline the current approach where decisions approving projects commonly include a standard set of post-approval monitoring conditions – along with project-specific conditions.

Renewables now account for close to 100 per cent of generation applications.

During the year there were a number of notably unusual decisions, where the AUC dealt with unique situations or considered new types of applications involving industry approaches or projects that had not been seen before, such as the overlapping wind projects mentioned above. Among these were the Jasper Interconnection Project involving an assessment of both need and the proposed facility approach to serve customers and load inside a national park. Due to its complexity, this decision is viewed as a milestone in Canadian regulatory law. Another was the E.L. Smith 12-megawatts solar facility proposed by EPCOR, which raised again the issue of self-generation combined with an intent to export power to the grid.

Rates



From left to right:
Derrick Ploof
Rhonda Lemoine
Oscar Saenz

Utility rate-setting is the core deliverable of the Alberta Utilities Commission and represents a substantial portion of its workload.

This complex work directly impacts the cost of service for natural gas, electricity, and in some cases, water, for millions of Albertans.

In 2018-2019, reflecting efforts across the organization to streamline and reduce regulatory burden, the AUC's rates division implemented process improvements and process reductions while focusing on the prudence of applied-for costs and the efficacy of our rate making approach to ensure the rates Albertans pay are just and reasonable.

This is critical work with enormous impact and implications. Alberta's utilities sector is valued at more than \$30 billion, with three million sites – and three million ratepayers – served. The rates determined by the AUC total more than \$5 billion annually, funding and supporting a healthy utilities industry that is the cornerstone of maintaining investor attractiveness. This in turn supports Alberta businesses and families and the Alberta way of life.

During fiscal 2018-2019, 97.5 per cent of electric and gas distribution rates decisions and 95.5 per cent of electric and gas transmission rates were issued within established required timelines, either internal



From left to right:
Rhonda Lemoine
Derrick Ploof
Kristjana Kellgren
Ragaey Habashy
Oscar Saenz

AUC-adopted timelines known to industry or those in place through legislation. In both distribution and transmission rate-setting, nearly 60 per cent of decisions were issued within 55 calendar days. In transmission, 86 per cent were issued within 90 calendar days.

Despite these successes, the AUC and stakeholders continue to, where and when prudent, desire shorter more efficient rates proceedings to reduce costs and reduce regulatory lag. The AUC's stance is that efficiency improvement is a moving target that is never fully accomplished. Additionally, the AUC must also ensure that the voices, evidence and positions of those impacted by rates and those who advocate for consumers are heard, understood and considered.

During the year, the AUC rates division worked to improve internal communications during the decision-writing phase of major rates decisions,

making the process more efficient. This program is currently being assessed. It also began tracking decision directions to support compliance, and continued to monitor the results of process improvements implemented beginning in late 2016 that include technical meetings,

“The rates determined by the AUC total more than \$5 billion annually, funding and supporting a healthy utilities industry that is the cornerstone of maintaining a vibrant, competitive economy.”

the use of remote attendance technology (video and audio) for scope and technical meetings, expanded use of issues lists to streamline and speed proceedings, and streamlining compliance filings.

Understanding the key drivers behind regulatory lag caused by delays that create slowdowns in some proceedings, often caused by non-standard proceeding steps, was the focus of analytical work that continues into the new fiscal year. Based on that analysis, measures to reduce delays are set to be implemented in 2019-2020.

This extraordinarily important work aside, the AUC has become increasingly aware

of trends underway and changes on the horizon in distribution for both industry and consumers that have profound implications for rates, rate structures and rate-making. Accelerating and potentially disruptive technological developments have the promise of changing the distribution utility sector for both electricity and natural gas.

As a public interest regulator, it is critical the AUC understand the changes afoot in the industry its mandate includes by taking a collaborative approach to map out the key issues related to the distribution system's future, so the AUC can develop the necessary regulatory framework to accommodate the evolution of the electric and natural gas distribution networks.

For these reasons, among the largest accomplishments with the AUC rates division in 2018-2019 was the establishment of a technology and innovation group, and in concert with that launch the AUC distribution inquiry.

A discussion on the AUC's extensive work around its technology group and details of the goals and directions of the technology-focused AUC distribution inquiry can be found elsewhere in this annual review.

Throughout the year, the rates division completed a number of high-importance, high-impact proceedings or initiatives. These included:

“Accelerating and potentially disruptive technological developments have the promise of changing the distribution utility sector for both electricity and natural gas.”



From left to right:
Geoff Bourque
Elaine Chu

- Researching distribution rate-making Phase 2 rate design improvements. Rate-making generally includes two steps. In the first step or phase, the reasonable costs of the utility are calculated or ascertained. In the second step or Phase 2, the costs are attributed to consumer classes to create rate classes. The AUC applies the principle that consumers should pay only the reasonable costs the utility encounters delivering utility service on their behalf.
- Implementing second-generation performance-based regulation (PBR) for distribution utilities. By introducing formula-based, competition-like measures, PBR was first implemented for Alberta's distribution utilities in 2013, with a goal of restraining rate growth to less than it would otherwise be. The second generation, with improved and more effective treatment of capital got under way in 2018. Applying the largest improvements proved to be mechanical and simple.
- Determining the 2018 AUC Generic Cost of Capital. This is an extensive, detailed process that sets the allowed returned on equity for regulated utilities, and determines the deemed capital structure split between debt and equity for each utility to account for differences in business risk. In essence, it sets the backdrop against which the utilities perform. The ROE was unchanged at 8.5 per cent and debt to equity was set at 63:37, except for AltaGas Utilities Inc., set at 61:39 to reflect greater business risks.
 - In the 2018 Generic Cost of Capital decision the AUC signalled that it wishes to return to a formula-based approach to setting ROE and deemed capital structure. Work on this, which will streamline rate of return determination and reduce regulatory burden, is underway.

"How will technology affect the electricity and natural gas distribution networks and incumbent distribution facility owners; and how quickly?"

Market Oversight and Enforcement



From left to right:
Pooja Sharma
Summer Abney

The AUC's market oversight and enforcement division has a tremendous breadth

of responsibilities that encompass a large swath of AUC rule development (and application), while also being accountable for a key facet of the AUC's mandate centred on enforcement of Alberta

utilities law, and AUC rules, decisions and orders. The latter includes at a high-level ensuring openly competitive

"The division's work in 2018-2019 was driven by the additional powers and functions assigned to the AUC by Bill 13, An Act to Secure Alberta's Electricity Future."

market behaviour; and at the customer level ensuring Albertans receive safe and reliable utility service while utilities are held accountable

for their customer care and billing practices.

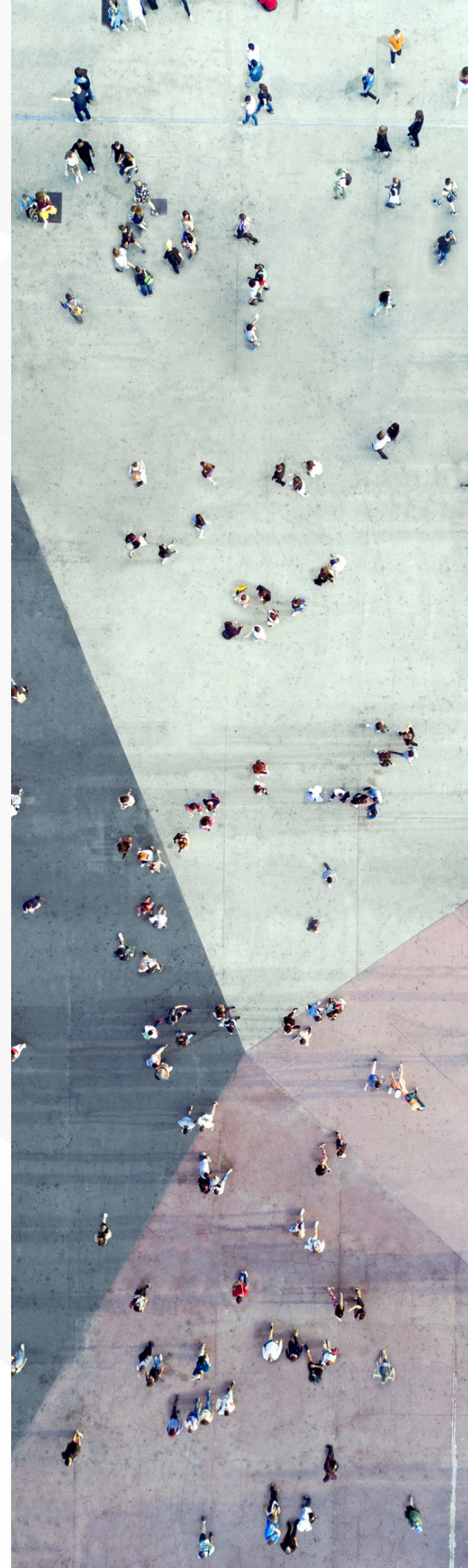
2018-2019 highlights

1. A total of 128 consultations.
2. A review of 22 markets applications.
3. Six regulatory policy applications, opening 25 investigations files (and closing 17).
4. Thirty decisions issued.

The division also oversaw the transition of electric service providers in Fort Macleod, after the town sold its electric distribution system to FortisAlberta Inc. The transition, involving 1,666 customers was completed with no customer complaints.

Much of the division's work was in 2018-2019 driven by the additional powers and functions assigned to the AUC by Bill 13, *An Act to Secure Alberta's Electricity Future*, which came into power in June 2018. This bill assigned powers to the AUC to issue specified penalties for infractions of AUC rules and decision instruments, and gave additional powers and obligations to the AUC to scrutinize all rules brought forward by the Alberta Electric System Operator to ensure they are in the public interest.

The AUC's enhanced, strengthened role around the public interest scrutiny of independent system operator rules was implemented to ensure market rules in the public interest of Alberta by being technically sound and supporting a fair, efficient and openly competitive marketplace. These are important responsibilities. At a higher level and at their core, the enhanced AUC powers were designed to ensure that AESO rules are developed with effective stakeholder involvement, are always subject to regulatory scrutiny, and demonstrably serve the public interest.



Timelines for the AUC's critical work on specified penalties were necessarily aggressive to meet a January 1, 2019, implementation deadline. The work included substantial consultation efforts around first clarifying and revising AUC rules 003 (on standards for energy service providers), 021 (on electricity billing system settlement codes), 028 (on natural gas billing system settlement codes), and then the creation of a new rule, AUC Rule 032: *Specified Penalties*.

Overall the work was demanding and ensuring it done correctly and effectively was highly important: Specified penalties became a foundational piece of the AUC's enforcement program because while they currently apply to consumer and safety related matters, they can be applied to any contravention of AUC rules, orders and

decisions. In short, specified penalties are a material addition to the AUC's regulatory toolbox.

Around compliance and enforcement, the market oversight and enforcement division had an active year, dealing with a variety of investigations related to fires involving distribution and transmission facilities,

“Specified penalties became a foundational piece of the AUC's enforcement program. They are a material addition to the AUC's regulatory toolbox”

retailers not complying with AUC rules and customer complaints around rates, terms and conditions of service and customer disconnections, and landowner-related matters.

While dealing with and resolving these issues, from an administrative and managerial standpoint the division also worked to improve and shorten the timeframes of the complaint-handling process. Generally speaking, the AUC seeks to resolve issues through negotiation





rather than through more time-consuming and costly formal enforcement hearings.

Specified penalties and enhanced scrutiny of independent system operator rules were not the only areas where the market oversight and

enforcement division was at the centre of expanded AUC responsibilities.

The AUC has long had a role administering Alberta's support of and rules around small-

scale generation, such as through the *Micro-generation Regulation*. In 2018-2019, the AUC worked with the Department of Energy around efforts to further encourage and manage increasing interest in non-traditional

or alternative approaches to generation by individuals and communities through the *Small Scale Generation Regulation*. This includes establishing the application process to review and approve community benefits agreements.

"The AUC seeks to resolve issues through negotiation rather than through more time-consuming and costly formal enforcement hearings."

Returning to the division's enforcement responsibilities, it completed detailed *Code of Conduct Regulation* audits on three of the largest utility entities in

Alberta: The ATCO Ltd. group, Direct Energy, and the EPCOR Corp. group. The AUC was pleased that the audits, eight separate audit in total, found no contraventions.

Corporate Services



From left to right:
Darek Kogut
Shaheer Akhlaq

The AUC's corporate services division keeps the organization abreast of demands for systems and resources to meet the AUC's mission and to excel as an organization. This includes information technology, human resources, staff training and development, records management, financial management, expense disclosure, facilities management, compensation, personnel performance

management, communications platforms, and other matters. It is an exceedingly important area in a modern, expert and interdisciplinary regulatory body, where the reliance on IT and expert staff and Commission members is high. One of the Commission challenges is to attract, develop and retain people with the right skills for the future, particularly related to advancing technologies.

2018-2019 highlights

1. Reduced cost, complexity and timelines

A major accomplishment was the adoption and roll-out of an online consultation tool, AUC Engage, that has the promise of reducing consultation costs and timelines, and improving responsiveness, speed and accuracy. The platform improves the clarity of the consultation process, stages, discussion timelines, key dates, topics and participants while providing convenient, centralized and readily available access to documents and discussions. It reduces costs, complexity and timelines and improves outcomes.

2. Smoother future proceedings

The AUC also worked to improve the management of confidential filings, which is critical to the smooth functioning of proceedings that involve confidential filings. The AUC strives to ensure transparency, but some materials do require confidentiality. This is not uncommon in rates hearings that may involve proprietary corporate matters,

contracts and bids. Managing this information carefully but effectively improves proceeding efficiency.

3. Expanding our people skills

In the atmosphere of change that characterized the AUC in 2018-2019, the organization actively re-committed to ensuring it has the right people with the right skills now and in the future. This included developing a leadership development plan and emerging leaders program and completing the first courses in those programs. From the top down, the AUC is committed to being a learning organization to stay nimble and correctly staffed in a quickly evolving utilities sector.

4. AUC costs per ratepayer continues to shrink

The AUC's cost per ratepayer has declined more than 20 per cent since 2008 through careful streamlining and cost-cutting despite higher increased workload, number of consumer sites and inflation.

The corporate services division successfully tackled other high-profile priorities in 2018-2019, all while going through a change in leadership as part of an overall renewal at the AUC. A major focus was the AUC's move in Calgary to a new office facility, as well as substantial renovations to our Edmonton office. This work included revised corporate policies and processes to support the new environment, revisions to our business continuity framework, and an inventory of capital assets, and six months in, adjustments to leasehold improvements and furniture to reflect needs.

A major deliverable for corporate services was the establishment of a new compensation framework for AUC personnel to meet the requirements of the *Reform of Agencies, Boards and Commission Compensation Act*. Working closely with the Public Agency Secretariat, a new structure was implemented. In 2018-2019, the AUC initiated electronic funds transfer (EFT) for administration fee payments, which increases efficiency while reducing processing and risk. The use of EFT was expanded later in the year. Across the AUC's information technologies, there were increased and sustained efforts



From left to right:
Oscar Saenz
Ragaey Habashy

around cyber security, including using third-party expertise to prevent incursions and limit damage or losses should one occur.

The corporate services division works with strict performance measures. It met them all. Internally, these included strong employee engagement and a positive employee view of the work environment.

Externally, corporate services is the steward of many of the AUC's outward-facing platforms, many critical to ensuring the AUC can meet its statutory mandates efficiently. There would be no AUC without our computer, and electronic proceeding record systems. Increasingly, the AUC's platforms to communicate and interact are virtual. Performance benchmarks ensured external stakeholders could access critical eFiling materials 99 per cent of the time. Performance requirements were also exceeded for system maintenance. We were also

successful in adopting an updated computer operating system across the organization.

The AUC's financial reporting is subject to review by the Auditor General of Alberta and we were pleased that we received no audit or control weakness recommendations

"Performance benchmarks ensured external stakeholders could access critical eFiling materials 99 per cent of the time."

following the Auditor General annual audit. The AUC also completed its triennial audit of staff and management pension plans with no issues. In the area of financial management we ensured

compliance with the Financial Administration Act and various associated directives, as well as updated provincial requirements on overtime tracking and compensation. And, we updated the AUC's budget and forecast management approaches to support changes in the internal controls structure within the AUC.

William Andrew Grieve Hearing room

"There is no higher calling than public service and in serving the public interest based upon the time-honoured principles of natural justice. Albertans will trust us only if we demonstrate a respect for their right to be heard, through fair, open and transparent processes."



- Willie Grieve, QC

Natural justice at work – the right to a fair hearing

The AUC's hearing room is named in honour of our founding chair, William Andrew (Willie) Grieve. Willie's dedication to public service and his significant contributions to the Alberta public interest left an indelible mark on the regulatory landscape of the utilities sector in Alberta.

As inaugural chair, Willie steered the AUC through times of challenge, change and opportunity. With a talented team of Commission members, he built public trust, respect and confidence in the agency, enhancing AUC processes, leading innovative rate making initiatives, and nurturing a depth of talent and expertise to position the AUC for the future.

His stewardship of the AUC vision to be trusted as a leader that delivers innovative and efficient regulatory solutions for Alberta also inspired a sense of caring about how the agency must evolve and adapt so as to continually reflect the public interest.



Chair 2008-2018

The William Andrew Grieve Hearing Room

The AUC was shocked and saddened by the November 2018 death from illness of our first permanent chair, Willie Grieve. Our debt to Willie cannot be adequately expressed in words, but he forged the AUC

to be a modern, professional, caring and respected organization, and in so doing touched each and every one of us. It was the AUC's privilege to name its Calgary hearing room in his memory.

Law



From left to right:
Brian McNulty
Leslie Diebolt
David Reese

As a quasi-judicial expert utilities regulator, the Alberta Utilities Commission applies and interprets a substantial body of administrative law including legislation and regulations in every decision it issues and in almost all the work it does. Subject to narrow avenues of appeal to itself or the Court of Appeal of Alberta, the AUC has many responsibilities and powers, including the power to issue constitutional

interpretations and to make findings of fact in issuing its decisions. Through its enabling legislation it has the powers of an Alberta Court of Queen's Bench. In this regard, the law and legal

matters are at the heart of nearly everything the AUC does.

"In 2018-2019, the law division had a direct or indirect role in all 951 applications made to the AUC, and all 558 decisions issued."

The AUC's law division provides legal advice and

expertise to Commission members and AUC executives, and contributes heavily to key decisions in every area regulated by the AUC; provides

legal review and expertise related to organizational administrative and managerial matters including contract and personnel administration; as well as representing the organization in actions before appellate courts such as the Court of Appeal of Alberta and the Supreme Court of Canada.

Requests to the AUC to review and vary (R&V) earlier decisions are, at the staff level, managed by the law division and it also oversees applications for utility and intervenor costs arising out of regulatory proceedings. In 2018-2019, the law division had a direct or indirect role in all 951 applications made to the AUC, and all 558 decisions issued. In so doing it contributes heavily to the success and workload of all other AUC divisions and its expertise is applied and incorporated in, decisions that encompass rates, markets, facilities, enforcement, franchises, price-setting formulas, costs, rule infractions, specified penalties and touch on electricity, natural gas and water utility service. Division personnel are also centrally involved in AUC rule consultations.

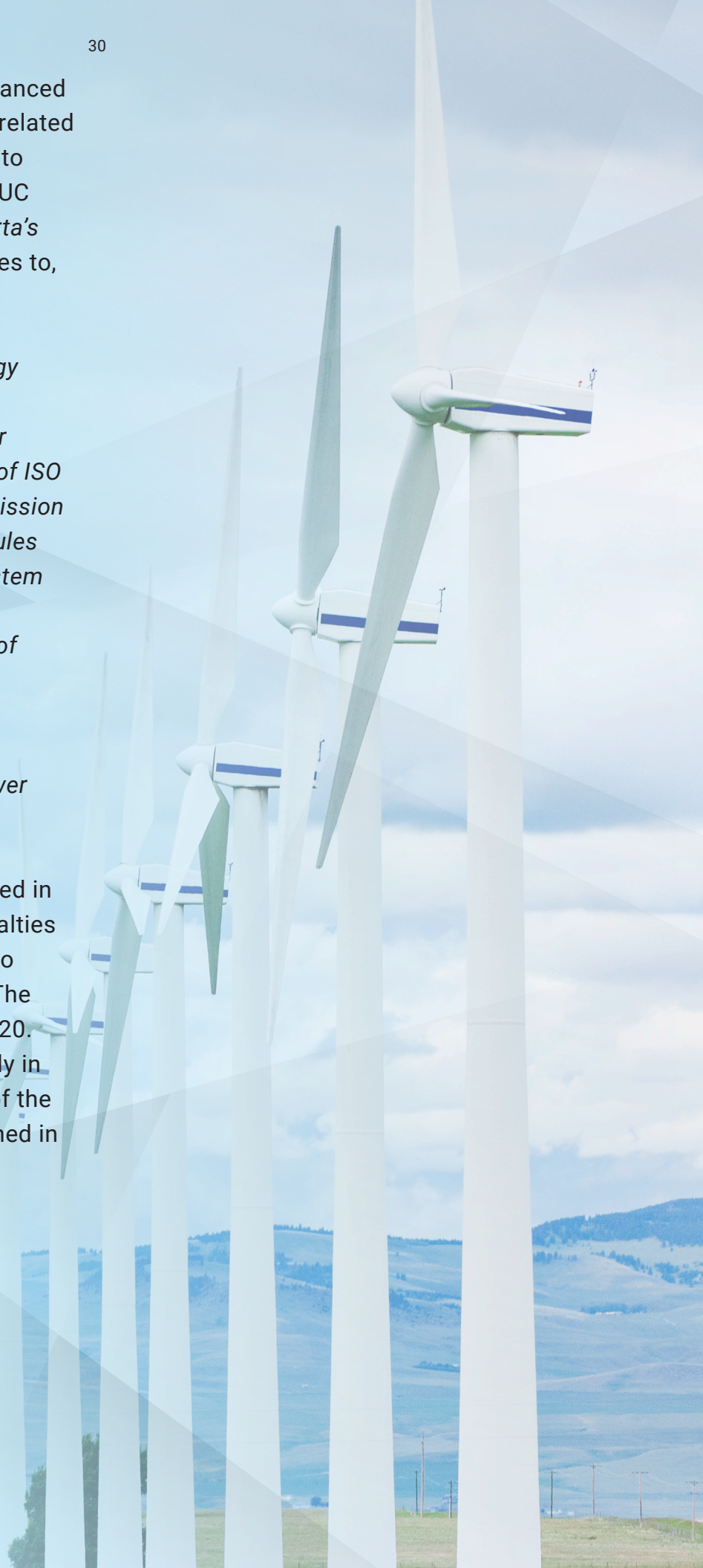
2018-2019 decision highlights

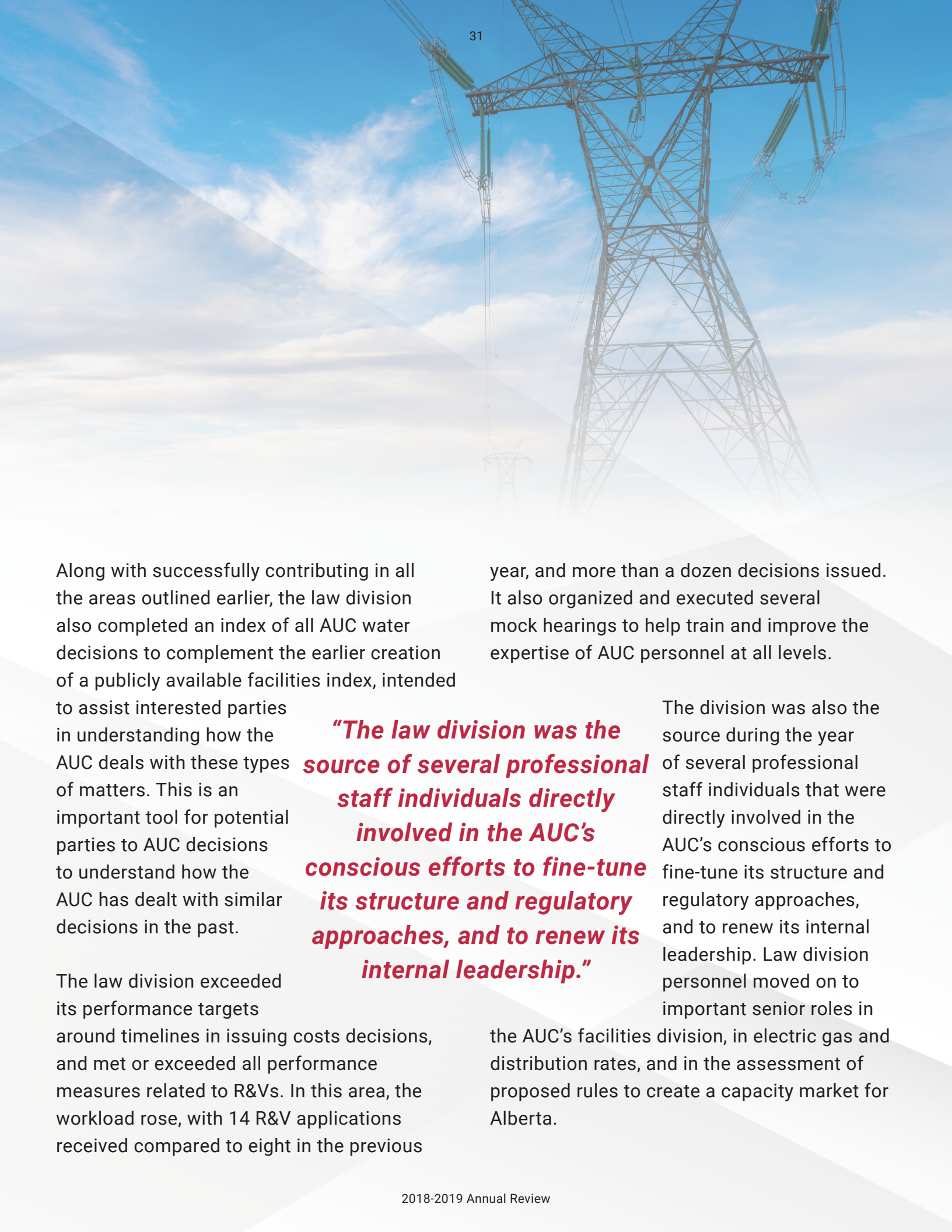
- **Capital Power Halkirk 2 Wind Power Project**
- **Jasper Interconnection Project (transmission project in national park)**
- **Direct Energy 2017-2018 default and regulated rate tariff application**
- **FortisAlberta Inc. Boundaries of Exclusive Municipal Franchise Areas**
- **2018 Generic Cost of Capital**
- **Turning Point Generation's Canyon Creek Pumped Hydro Energy Storage Project**
- **EDP Renewables Sharp Hills Wind Farm**
- **Direct Energy 2018-2020 Energy Price Setting Plan Application**
- **Nine permission to appeal applications to the Court of Appeal of Alberta**
- **Eighty-two cost applications**

In 2018-2019 the AUC completed or advanced complex rule reviews and amendments related to a high number of its rules due in part to additional powers and obligations the AUC received through the *Act to Ensure Alberta's Electricity Future*. These included changes to, or the establishment of:

- Rule 003: *Service Standards for Energy Service Providers*
- Rule 017: *Procedures and Process for Development of ISO Rules and Filing of ISO Rules with the Alberta Utilities Commission*
- Rule 021: *Settlement System Code Rules*
- Rule 028: *Natural Gas Settlement System Code Rules*
- Rule 030: *Compliance with the Code of Conduct Regulation*
- Rule 032: *Specified Penalties*
- Rule 033: *Post-approval Monitoring Requirements for Wind and Solar Power Plants*

Law division counsel were deeply involved in two key initiatives around specified penalties and the examination of proposed rules to establish a capacity market in Alberta. The later work continued into fiscal 2019-2020. Law personnel were also involved closely in the establishment, launch and running of the AUC's distribution system review, launched in December 2018.





Along with successfully contributing in all the areas outlined earlier, the law division also completed an index of all AUC water decisions to complement the earlier creation of a publicly available facilities index, intended to assist interested parties in understanding how the AUC deals with these types of matters. This is an important tool for potential parties to AUC decisions to understand how the AUC has dealt with similar decisions in the past.

The law division exceeded its performance targets around timelines in issuing costs decisions, and met or exceeded all performance measures related to R&Vs. In this area, the workload rose, with 14 R&V applications received compared to eight in the previous

year, and more than a dozen decisions issued. It also organized and executed several mock hearings to help train and improve the expertise of AUC personnel at all levels.

“The law division was the source of several professional staff individuals directly involved in the AUC’s conscious efforts to fine-tune its structure and regulatory approaches, and to renew its internal leadership.”

The division was also the source during the year of several professional staff individuals that were directly involved in the AUC’s conscious efforts to fine-tune its structure and regulatory approaches, and to renew its internal leadership. Law division personnel moved on to important senior roles in

the AUC’s facilities division, in electric gas and distribution rates, and in the assessment of proposed rules to create a capacity market for Alberta.

Examining a capacity market

for electricity in Alberta



From left to right:
Elizabeth von Engelbrechten
Carl Fuchshuber

As the AUC wrapped up fiscal 2018-2019, considerable organizational energy and focus was directed towards its government-assigned work in assessing system operator rules designed to implement a capacity market for Alberta. That work continued through the beginning of the new year, as the new Alberta government consulted with stakeholders on and considered whether to proceed.

Historically Alberta has operated an energy-only market in electricity, where electricity generated by privately owned

generators in a wholesale electricity market in which supply and demand dynamics set the price. The AUC has had an important role in that market in reviewing market rules issued by the market-operating independent system

“The AUC received materially expanded powers in law to review not just capacity-related rules from the system operator, but all system operator rules.”

operator (the Alberta Electric System Operator), and in adjudicating complaints about market behaviour filed by the Market Surveillance Administrator.

In November 2016, following and based on, a study by the AESO, the government of the day announced it would implement a capacity

market in electricity to address concerns about potential electricity supply shortages and pricing volatility. In a capacity market private power generators are paid through a mix of competitively auctioned payment of their fixed costs and prices from the spot electricity market.

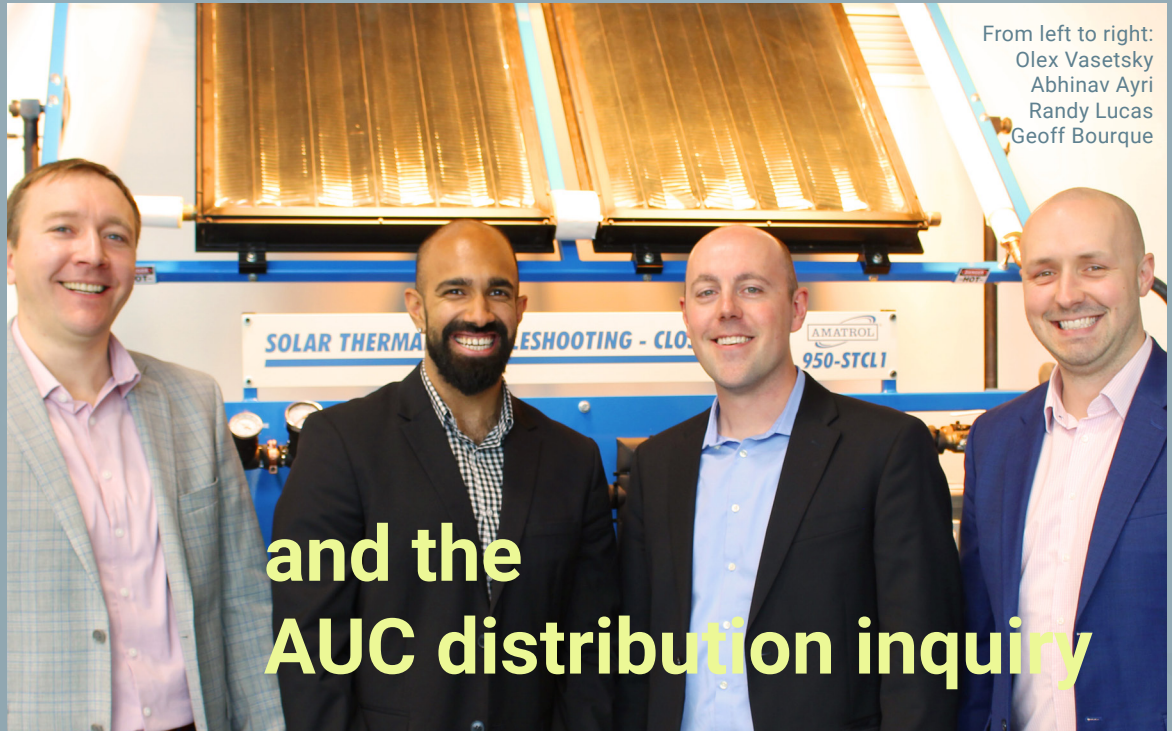
This led to the creation of a specialized capacity markets group at the AUC to reflect the key advisory – and in time, adjudicative – role the AUC might have were Alberta to transition to a capacity market. This would be a very significant change to the electricity market and to the AUC’s regulatory oversight. Led by a new AUC hire with extensive industry experience in and around electricity markets, the team began its work in providing expert advice to the Commission, as well as in finalizing and adjudicating market rules. Given the demanding timelines envisioned by government, the group set to work to prepare the AUC for success in its assigned duties. Those duties and responsibilities were set out in the spring of 2018 with *An Act to Secure Alberta’s Electricity Future*. Among them were materially expanded powers to review not just capacity-related rules from the system operator, but all system operator rules.

Subsequently:

- In July 2018, following extensive industry consultations, the AUC issued revisions to its Rule 017 on ISO rules setting out new requirements for the ISO to develop proposed rules, including strengthened industry consultation requirements.
- In February 2019, the AUC received an application from the Alberta Electric System Operator including the rules it proposed to implement to put a capacity market into effect.
- In May 2019, the AUC began a month of oral hearings into the the proposed rules.
- On July 24, 2019, the Alberta government announced a capacity market would not be implemented, citing the structural and administrative simplicity of an energy-only market, market developments that had occurred since a capacity market was contemplated, and an overwhelming preference among stakeholders for the energy-only design.
- The government is also seeking advice on whether changes are needed to the energy-only market, including price parameters and shortage pricing. The government is also seeking advice on market power and market power mitigation.



The technology and innovation group



From left to right:
Olex Vasetsky
Abhinav Ayri
Randy Lucas
Geoff Bourque

and the AUC distribution inquiry

As an organization, the AUC is committed to being adaptive and responsive - and regulating only where and how necessary. As a public interest regulator it is obligated to understand the forces of change being exerted on the utilities industry it oversees.

Within that context, it has become clear that two broad influences are coinciding to spark significant changes in Alberta's distribution utility industry. Those forces are ever evolving technology, and shifting societal expectations and appetites. It's important to understand what those forces are and how they may impact utilities and ratepayers. The AUC expects the effect of technologies and innovations on Alberta's distribution systems combined with the economic forces rendering monopoly

franchises increasingly exposed to direct and indirect competition will require a proactive approach to regulation.

For these reasons, among the most important initiatives at the AUC in 2018-2019 was the establishment of a technology and innovation group, in concert with the launch of the AUC distribution inquiry. These initiatives reflect

"Two broad influences are coinciding to spark significant changes in Alberta's distribution utility industry: ever evolving technology and shifting societal expectations."

the AUC's renewed commitment to being flexible, accountable and responsive to changes in and among the constituencies it serves.

In the inquiry, the AUC is taking a collaborative and proactive approach to map out the key issues related to the distribution system's future, so the necessary regulatory framework can be developed to accommodate the evolution of the electric and natural gas distribution networks.

The inquiry is intended to answer three questions:

- How will technology affect the electricity and natural gas distribution networks and incumbent distribution facility owners; and how quickly?
- Where alternative approaches to providing service develop, how will the incumbent distribution utilities be expected to respond and what services should be subject to regulation?
- How should the rate structures of the distribution facility owners be modified to ensure that price signals encourage distribution facility owners, consumers, producers, prosumers and alternative technology providers to use the networks and related resources in an efficient and cost effective way?

"The fundamental objective is to consider and implement the regulatory framework necessary to accommodate economic and technological forces transforming the market structure."

Its fundamental objective is to establish the regulatory agenda for subsequent proceedings of the AUC that will consider, and then implement, the regulatory framework necessary to accommodate the economic and technological forces that are transforming the market structure governing energy distribution by public utilities.

Coincident with the launch of the inquiry the AUC created a technology group in its rates division. It is a key step in the AUC's efforts to ensure its structure reflects the priorities and demands of prudently regulating an evolving sector. The initial efforts of the group have been focused on supporting the AUC as it advances the distribution system inquiry.

Personnel resources were reassigned from within the AUC to meet the need.

Through the team's efforts the decision was taken to expand the inquiry to include natural gas distribution to understand the effects of technology on that industry, and the emerging ability of electrical and natural gas distributors to displace one another.

That ability is itself an extraordinarily clear signal the distribution industry is changing, and broadening the scope of the inquiry to include natural gas utilities will allow the AUC to consider the potential economic and regulatory

implications of electricity and natural gas being used as interchangeable energy sources.

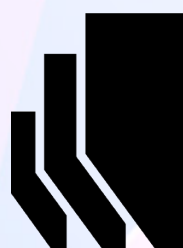
The inquiry will take place through three modules, the first of which is well underway. Modules 2 and 3 have been combined.

Module 1:

- A focus on emerging trends in technology and innovation.

Module 2 and 3:

- Examining the interplay between innovation and technological changes, and the social, economic and legislative forces affecting business models and regulatory frameworks.
- Examining the ability of rate designs to send price signals that ensure cost-effective investment in distribution systems and to avoid, or minimize, uneconomic bypass of regulated facilities.



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