

November 8, 2019

Note from Mark Kolesar to October 28 & 29 roundtable attendees

Thank you very much for attending one of the two strategic plan roundtables I held on October 28 and 29. Attached are summaries of the comments we heard and received at those sessions.

My colleagues and I appreciated the time you took to provide your high-level perspectives on challenges and priorities for the coming years, and to what extent we have captured these in our 2019-2022 strategic plan. At our October 4 general roundtable on reducing regulatory burden I limited myself to a listener role. However, our October 28 and 29 sessions were intended to allow us to interact on a more direct and personal basis.

I am pleased to see that we are in general agreement that the AUC's strategic plan captures the important challenges going forward. We heard some thoughtful and well-reasoned comments on a range of major issues such as investor risk, technological disruption and rate impacts, system optimization, regulatory lag and wholesale markets, to name a few. We will review our notes to see where we might be clearer or amend some of the text in the strategic plan to reflect certain aspects of our discussions. I'll circle back to you very shortly with our final plan.

One common thread in our discussions was the importance and priority of one of the four themes in the strategic plan, and that was "Efficiency and Regulatory Burden Reduction." A particular item we discussed highlights and reinforces an issue identified at the broader October 4 roundtable, the role of negotiated settlements in our processes.

We touched on that in the bulletin we released on October 18 shortly after the roundtable, which implemented immediate efficiency improvements discussed at the roundtable. What I heard from you most recently is that you also want us to focus on a more efficient approach to the use of negotiated settlement agreements. Your goal is to see the AUC tighten up on what we identified in the bulletin, to be more hands-on and more prescriptive with respect to scope if we are to make negotiated settlements work effectively. We will do that.

As it stands now, parties may seek permission to negotiate an application or parts of it on their own initiative. Going forward, the Commission may step in on occasion to direct the parties to negotiate one or more issues relevant to an application. The Commission may assign a mediator or facilitator to the negotiation who will, if appropriate, recommend the resulting settlement for approval to the Commission. I agree with you that proceeding in this manner should contribute to reducing process time and regulatory lag.

Another idea was brought forward by the Market Surveillance Administrator to pursue reforms regarding specified penalties for contraventions of reliability standards related to critical infrastructure protection, commonly called CIP standards. The MSA believes changes to the

AUC's practices in this area can result in significant efficiencies and cost reductions. With these potential improvements in mind, we will be launching a consultation soon.

Once again, thank you for meeting with us. It's important to me that we be adaptive and responsive and so I hope we can have this same kind of productive dialogue with you again.

Mark Kolesar
Chair
Alberta Utilities Commission

AUC Chair's Roundtable October 28

Regulated Utility Executives

Summary of Topics and Comments

- Ongoing consultation is key; at a high strategic level and at the technical and working group level on key issues.
- There is a desire for stakeholder access to the Commission, to provide input and discuss emerging issues in an increasingly dynamic and fast-changing environment.
- The new AUC approach is appreciated, including the glass door approach.
- The AUC Distribution Inquiry is a good idea.
- It is insufficient to just tinker with the regulatory process; the Commission should consider more profound changes.
- There is a desire for more focused intervention in the regulatory process.
- It is important to improve/restore customer and investor confidence.
- Be aware of and sensitive to “good” versus “perfect” when striving to get the regulatory regime “right.”
- It would be beneficial to have some governance of the Commission’s interpretation of certain areas of its mandate and legislation.
- AUC decisions and rulings are not always consistent; the AUC should focus on principles and objectives, not precedents.
- Facility applications need to be processed more quickly.
- The Commission should reconsider the use of placeholders, which extends the length of time for a rate to finalize, increases accounting complexity, and reduces certainty and reduces investor confidence.
- Consider adopting a performance metric that measures the time from filing to rates finalization.
- There is frustration in some quarters with NSAs. The negotiated settlement agreements or NSAs need to be re-thought. The Commission should consider adopting alternative dispute resolution (ADR). With respect to NSAs, the AUC should be more prescriptive on issues and scope.
- The Commission needs to be mindful of the incentives for some parties to stretch out negotiated settlement process to maximize billable hours rather than reach an agreement.
- The Commission should re-consider Rule 32: *Specified Penalties* to be more incentive based if energy service providers exceed a standard of performance, with penalties applying for performance below the standard; the Commission should apply greater discretion in applying Rule 32 so as to encourage self-reporting and compliance.

- With respect to interventions, reduce scope creep and “forensic” information requests, by defining proceeding scope.
- Consider other jurisdictions’ procedural approaches, perhaps adopting the Ontario Energy Board’s model with staff acting in an intervenor role.
- Performance-based regulation is extraordinarily complex and the most burdensome such regime in the world; more complex even than in the United Kingdom.
- There is not enough appreciation of the utilities’ challenges and the burden placed on them.
- Customers want competitive, predictable costs and this is more important than reliability; otherwise we will see more self-generation. (A 99 per-cent-plus reliability target is excessive.)
- Investors need predictability, especially in regard to utility asset disposition (UAD).
- Predictability is important to customers and investors, including how it relates to:
 - UAD
 - Regulatory delay or lag.
 - Consistency and clarity in decision making.
- There is a desire for input into AUC rule making, and for an avenue to voice disagreement with rules.

AUC Chair's Roundtable October 29
Agencies, Consumer, and Industry Representatives
Summary of Topics and Comments

- Parties would benefit from a clearer understanding of what constitutes “good intervention.”
- Input costs are important.
- Wires costs have skyrocketed, while generation costs have declined. (e.g. FortisAlberta revenue requirement 2009-2017 increased 23 times faster than load growth.)
- Consumers are frustrated with disproportionately high distribution and transmission charges on their bills.
- There is concern about growing attractiveness of self-supply leading to higher costs for the remainder of market.
- The electricity industry is on the cusp of transformative change. Parties must work together, something they have not been good at.
- Technology and consumer choice are indeed drivers of the future.
- There is support for the AUC's Distribution Inquiry.
- The AUC's market initiative to evaluate existing rate structures to ensure a level playing field for new unregulated services is critical.
- Coordination of distribution and transmission planning to optimize existing assets and integrate prudent new systems is important.
- Every investment funded by ratepayers should have a clear, compelling business case.
- The regulatory process needs to balance efficiency with procedural fairness and due process.
- Interveners must react quickly when applications are filed. Information asymmetry for applications could be mitigated by quality standards for applications.
- Enforce efficient information request (IR) and response processes.
- Technical workshops are an excellent tool.
- Limit confidentiality.
- Reforms are required to critical infrastructure protection (CIP) reliability standards.
- The AUC should strengthen and build relationships with a diverse range of relevant stakeholders.
- Looking at rate design and modernizing the AESO tariff is critical.
- A stable market framework is required.
- Regulatory delay must be reduced. The AUC must better manage rate filings. This may be achieved through workshops, technical briefings and negotiated settlements.
- Be cognizant of the possibility for stranded costs resulting from technological change

- Prioritize cohesive permitting across government agencies and departments.
- Agencies mustn't be/shouldn't be barriers to what consumers want.
- Agency "cross-threading" is a frustrating issue and part of regulator risk; this is the No. 1 concern for generators. Also, agencies should stick to assigned roles.
- Agencies must uphold legislation. Regulator risk occurs when agencies don't uphold legislation.
- The AUC must be beware of and avoid retroactive or unpredictable decisions.
- The AUC (and all agencies) must beware of the urge to pursue perfection, given the additional costs in time, resources and money to get to the perfect outcome.
- All of the industry must look for simplification, and process and cost reduction.
- Alternatives approaches in transmission need to be considered. Competitive procurement is a proven alternative and should be explored further.
- The TFCMC (transmission cost oversight) may not be appropriate for the future, now that the "big build" is over. Cost increases are now moving into the distribution sector.
- Uniform distribution planning and better coordination of reliability requirements are essential to ensure the electric system is optimized. Costs must be carefully managed.
- Tariffs need to be simpler and send clear signals to promote efficient outcomes. The current tariff structure is cumbersome.
- Reinterpretation of regulations and past precedents (on self supply and exports) is leading to uncertainty.
- Option M should be a priority.
- Level the playing field for rural electrification associations (REAs).
- Consumers are impatient with regulators and regulatory systems that fail to keep up with change and prevent access to choice.
- Examine the potential for more negotiated settlements.
- Retailer settlement should remain seamless