



REVISED AGENDA

GAS, POWER AND TELECOMMUNICATIONS COMMITTEE

April 19, 2018, 1:00 PM

LEGAL TRADITIONS COMMITTEE ROOM

Members

Councillor S. Chu, Chair

Councillor D. Farrell, Vice-Chair

Councillor D. Colley-Urquhart

Councillor J. Davison

Chief Financial Officer E. Sawyer

Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER
2. OPENING REMARKS
3. CONFIRMATION OF AGENDA

4. CONFIRMATION OF MINUTES

4.1 *Minutes of the Regular Meeting of the Gas, Power and Telecommunications Committee, 2018 February 23*

4.2 *Minutes of the Regular Meeting of the Gas, Power and Telecommunications Committee, 2018 March 15*

5. POSTPONED REPORTS

(including related/supplemental reports)

None.

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 *Status of Outstanding Motions and Directions, GPT2018-0427*
Attachment to be held confidential pursuant to Sections 23 and 24 of the FOIP.

6.2 *Industry Update on Electricity, Natural Gas, and Telecommunications, GPT2018-0428*

6.3 *Decision Report – The 2018-2022 Performance Based Regulation Plans, GPT2018-0441*

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS
None.

7.2 NOTICE(S) OF MOTION
None.

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
None.

9.2 URGENT BUSINESS

10. ADJOURNMENT



MINUTES

GAS, POWER AND TELECOMMUNICATIONS COMMITTEE

February 23, 2018, 9:30 AM
LEGAL TRADITIONS COMMITTEE ROOM

PRESENT: Councillor S. Chu, Chair
Councillor D. Farrell, Vice-Chair
Councillor D. Colley-Urquhart
Councillor J. Davison
Chief Financial Officer E. Sawyer
ALSO PRESENT: Acting City Clerk T. Rowe
Legislative Assistant M. A. Cario

1. CALL TO ORDER

Councillor Chu called this meeting to order at 9:30 a.m.

2. OPENING REMARKS

Councillor Chu provided opening remarks.

3. CONFIRMATION OF AGENDA

Moved by Councillor Colley-Urquhart

That the Agenda for the 2018 February 23 Regular Meeting of the Gas, Power, and Telecommunication be confirmed.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

4.1 Minutes of the Regular Meeting of the Gas, Power and Telecommunications Committee, 2017 December 07

Moved by Chief Financial Officer Sawyer

That the Minutes of the Gas, Power and Telecommunications Committee held on 2017 December 07, be confirmed.

MOTION CARRIED

5. POSTPONED REPORTS

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 Industry Update on Electricity, Natural Gas and Telecommunications , GPT2018-0124

Moved by Councillor Farrell

That Committee move into Closed Meeting at 9:34, to discuss confidential matters, subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, with respect to the following Reports:

- Industry Update on Electricity, Natural Gas and Telecommunications, GPT2018-0124
- Status of Outstanding Motions and Directions, GPT2018-0125

MOTION CARRIED

That with respect to Report GPT2018-0124, the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and
2. Direct that the attachment remain confidential under Section 24 of the *Freedom of Information and Protection of Privacy Act* until three years after the proceedings are completed.

MOTION CARRIED

Administration in attendance during the Closed Meeting discussions with respect to Report GPT2018-0124:

Clerk: T. Rowe, and M.A, Cario. Advice: R. Holberton, K. Hess, and S. Russell.
Observer: A. Fifield, D. Basto, and S. Mayer.

The Gas, Power and Telecommunications Committee reconvened at 9:58 a.m. with Councillor Chu in the Chair.

Moved by Councillor Colley-Urquhart

That the Gas, Power and Telecommunications Committee rise without reporting.

MOTION CARRIED

6.2 Status of Outstanding Motions and Directions, GPT2018-0125

Administration in attendance during the Closed Meeting discussions with respect to Report GPT2018-0125:

Clerk: T. Rowe, and M.A, Cario. Advice: R. Holberton, K. Hess, and S. Russell.
Observer: A. Fifield, D. Basto, and S. Mayer.

Moved by Chief Financial Officer Sawyer

That with respect to Report GPT2018-0125, the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and
2. Direct that the attachment and closed meeting discussions be held confidential pursuant to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, until all matters referred to in the attachment are completed or resolved.

MOTION CARRIED

6.3 Municipal Rights of Way Bylaw Amendment, GPT2018-0152

Moved by Councillor Colley-Urquhart

That the Gas, Power and Telecommunications Committee recommends that Council:

1. Give three readings to the proposed Amending Bylaw as set out in the Attachment; and
2. Receive this report for information.

MOTION CARRIED

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS

7.2 NOTICE(S) OF MOTION

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

Moved by Chief Financial Officer Sawyer

That, in accordance with Section 197 of the *Municipal Government Act* and Sections 23, 24, and 25 of the *Freedom of Information and Protection of Privacy Act*, Committee now move into Closed Meeting, in order to discuss several confidential matters.

MOTION CARRIED

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 2018 Work Plan for Gas, Power and Telecommunications, GPT2018-0123

Moved by Chief Financial Officer Sawyer

That Committee move into Closed Meeting at 10:01, to discuss confidential matters, subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, with respect to the following Reports:

- 2018 Work Plan for Gas, Power and Telecommunications, GPT2018-0123
- Summary of Current Proceeding, GPT2018-0020

MOTION CARRIED

The Gas, Power and Telecommunications Committee reconvened at 10:24 a.m. with Councillor Chu in the Chair.

Moved by Chief Financial Officer Sawyer

That the Gas, Power and Telecommunications Committee rise and report.

MOTION CARRIED

Administration in attendance during the Closed Meeting discussions with respect to Report GPT2018-0123:

Clerk: T. Rowe, and M.A, Cario. Advice: R. Holberton, K. Hess, and S. Russell. Observer: A. Fifield, D. Basto, and S. Mayer.

Moved by Chief Financial Officer Sawyer

That with respect to Report GPT2018-0123, the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Approve the 2018 GPT Work Plan with estimated expenditures as set out in the attachment; and
2. Direct that this report and attachment remain confidential under Sections 24 and 25 of the Freedom of Information and Protection of Privacy Act until the proceedings are complete

MOTION CARRIED

9.1.2 Summary of Current Proceedings, GPT2018-0020

Moved by Councillor Farrell

That with respect to Report GPT2018-0020, the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and
2. Direct that the report and attachment remain confidential under sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, until three years after the proceedings and any related proceedings are complete.

MOTION CARRIED

Administration in attendance during the Closed Meeting discussions with respect to Report GPT2018-0020:

Clerk: T. Rowe, and M.A, Cario. Advice: R. Holberton, K. Hess, and S. Russell. Observer: A. Fifield, D. Basto, and S. Mayer.

9.2 URGENT BUSINESS

10. ADJOURNMENT

Moved by Chief Financial Officer Sawyer

That this meeting adjourn at 10:25 a.m.

The following item has been forwarded to the 2018 March 19 Combined Meeting of Council:

CONSENT:

Municipal Rights of Way Bylaw Amendment, GPT2018-0152

The next Regular Meeting of the Gas, Power and Telecommunications Committee has been scheduled to be held on 2018 March 15 at 1:00 p.m.

CONFIRMED BY COMMITTEE ON 2018

CHAIR

ACTING CITY CLERK



MINUTES

GAS, POWER AND TELECOMMUNICATIONS COMMITTEE

March 15, 2018, 1:00 PM
LEGAL TRADITIONS COMMITTEE ROOM

PRESENT: Councillor S. Chu, Chair
Councillor D. Farrell, Vice-Chair
Councillor D. Colley-Urquhart
Councillor J. Davison
Chief Financial Officer E. Sawyer

ALSO PRESENT: Senior Regulatory Analyst R. Holberton
Leader K. Hess
Contracts Lawyer S. Russell
Acting City Clerk J. Dubetz
Legislative Assistant L. McDougall

1. CALL TO ORDER

Councillor Chu called the meeting to Order at 1:01 p.m.

2. OPENING REMARKS

No opening remarks were provided at today's Meeting.

3. CONFIRMATION OF AGENDA

Moved by Chief Financial Officer Sawyer

That the Agenda for the 2018 March 15 Regular Meeting of the Gas, Power and Telecommunications Committee be confirmed, **after amendment, as follows:**

ADD CONFIDENTIAL URGENT BUSINESS:

Item 9.2.1 ENMAX Update (Verbal), VR2018-0015

MOTION CARRIED

4. CONFIRMATION OF MINUTES

(None)

5. POSTPONED REPORTS

(None)

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 Status of Outstanding Motions and Directions, GPT2018-0278

Moved by Councillor Farrell

That with respect to Report GPT2018-0278, the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Receive this Report for information; and
2. Direct that the Attachment remain confidential subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, until all matters referred to in the Attachment are completed or resolved.

MOTION CARRIED7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS

(None)

7.2 NOTICE(S) OF MOTION

(None)

8. URGENT BUSINESS

(None)

9. CONFIDENTIAL ITEMS**Moved by** Councillor Davison

That, in accordance with Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, Committee moved into Closed Meeting, at 1:03 p.m., in the Legal Traditions Committee Room, order to consider several confidential matters with respect to the following Reports:

- Summary of Current Proceedings, GPT2018-0276;
- Status of Expenditures on Regulatory Interventions, GPT2018-0277; and
- ENMAX Update (Verbal), VR2018-0015.

MOTION CARRIED

Committee moved into Public Session at 1:56 p.m. with Councillor Chu in the Chair.

Moved by Councillor Colley-Urquhart

That the Committee rise and report.

MOTION CARRIED

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Summary of Current Proceedings, GPT2018-0276

Members of Administration in attendance during the Closed Meeting discussions with respect to Report GPT2018-0276:

Clerks: J. Dubetz and L. McDougall. Advice: R. Holberton and K. Hess.
Legal: S. Russell

Moved by Chief Financial Officer Sawyer

That with respect to Report GPT2018-0276, the following be approved,
after amendment:

That the Gas, Power and Telecommunications Committee direct that the Report, Attachment **and Closed Meeting discussions** remain confidential subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act* until three years after the proceedings and any related proceedings are complete.

MOTION CARRIED

9.1.2 Status of Expenditures on Regulatory Interventions, GPT2018-0277

Members of Administration in attendance during the Closed Meeting discussions with respect to Report GPT2018-0277:

Clerks: J. Dubetz and L. McDougall. Advice: R. Holberton and K. Hess.
Legal: S. Russell

Moved by Councillor Colley-Urquhart

That with respect to Report GPT2018-0277, the following be approved,
after amendment:

That the Gas, Power and Telecommunications Committee direct that this Report, Attachment **and Closed Meeting discussions** remain confidential subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, until all the proceedings, including any appeals, are complete.

MOTION CARRIED

9.2 URGENT BUSINESS

9.2.1 ENMAX Update (Verbal), VR2018-0015

A document, which is to remain confidential subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, was distributed.

Members of Administration in attendance during the Closed Meeting discussions with respect to Report VR2018-0015:

Clerks: J. Dubetz and L. McDougall. Advice: R. Holberton and K. Hess.
Legal: S. Russell

Moved by Councillor Davison

That with respect to Report VR2018-0015, the following be approved:

That the Gas, Power and Telecommunications Committee direct that the Verbal Report, confidential distribution and Closed Meeting discussions remain confidential subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

10. ADJOURNMENT

Moved by Councillor Farrell

That this meeting adjourn at 1:58 p.m.

MOTION CARRIED

The next Regular Meeting of the Gas, Power and Telecommunications Committee has been scheduled for 2018 April 19.

CONFIRMED BY COMMITTEE ON

CHAIR

ACTING CITY CLERK

**Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 April 19**

**ISC: UNRESTRICTED
GPT2018-0427
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Status of Outstanding Motions and Directions

EXECUTIVE SUMMARY

This report details the outstanding items for the Gas, Power and Telecommunications (GPT) Committee from the meeting of 2018 March 15.

ADMINISTRATION RECOMMENDATION:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and

Direct that the attachment be heard in a closed meeting pursuant to subsection 23(1) of the *Freedom of Information and Protection of Privacy Act*, and remain confidential under 24(1) of the *Freedom of Information and Protection of Privacy Act*, until all matters referred to in the attachment are completed or resolved.

PREVIOUS COUNCIL DIRECTION / POLICY

The GPT Committee has directed that this report be prepared for each meeting.

BACKGROUND

The background to each item listed on the attachment will be provided in a future report or other requested action dealing with that specific issue.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report, with attachment, provides a summary of outstanding items for the GPT Committee. There are no alternatives or analyses required.

Stakeholder Engagement, Research and Communication

This report, with attachment, provides a summary of outstanding items for the GPT Committee. There is no stakeholder engagement, research or communication required.

Strategic Alignment

This report is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

Social, Environmental, Economic (External)

This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line (TBL) Policy Framework. No implications are identified.

Financial Capacity

Current and Future Operating Budget:

As the report does not propose a decision, there is no direct budget or business plan impacts.

Current and Future Capital Budget:

As the report does not propose a decision, there is no direct budget or business plan impacts.

**Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 April 19**

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Status of Outstanding Motions and Directions

Risk Assessment

This report tracks outstanding motions and directions from the GPT Committee to Administration. No specific risks are associated with this report. Any risks associated with a specific direction or motion will be dealt with in the context of a report on that direction or motion.

REASON(S) FOR RECOMMENDATION(S):

This report assists the Committee in tracking the regulatory work of the GPT Committee.

ATTACHMENT(S)

1. Status of Outstanding Motions and Directions

**Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 April 19**

**ISC: UNRESTRICTED
GPT2018-0428
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Industry Update on Electricity, Natural Gas, and Telecommunications

EXECUTIVE SUMMARY

This report summarizes key developments in the electricity, natural gas, and telecommunications industries since 2018 February 23.

ADMINISTRATION RECOMMENDATION:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Gas, Power and Telecommunications Committee has requested that this report be prepared every second month.

BACKGROUND

This report, with its attachment, provides a summary of relevant developments in the utility industry and Alberta's regulatory environment.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Recent developments in the Alberta utilities industry are detailed in the attachment. Natural gas and electricity markets are analyzed to provide an understanding of energy prices which affect The City's utility costs and franchise fee revenue. In this report graphs have been included to provide a more informative timeline of price movements.

Policy issues in Alberta's regulated utilities and general utility industry developments that could have an impact on The City's interests are reviewed to keep committee members informed of issues that may require future regulatory intervention or impact The City's operations.

In the Attachment, a number of significant developments have occurred that will affect the price of utility services. The province reached an agreement with ENMAX on the returning of their PPAs to the Balancing Pool, thereby bringing to a conclusion the legal proceedings that the province brought against the former PPA owners. Progress has been made on the designing of the capacity market for electricity with the release of the first draft of the Comprehensive Market Design by the Alberta Electricity System Operator (AESO). AESO also released its 2017 Long-term Transmission Plan that has reduced its forecast on the amount of money that is needed to be spent on Alberta's transmission system over the short term.

Stakeholder Engagement, Research and Communication

N/A

Strategic Alignment

This report is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

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Gas, Power and Telecommunications
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Industry Update on Electricity, Natural Gas, and Telecommunications

Social, Environmental, Economic (External)

This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line Policy Framework. No implications were identified.

Financial Capacity

Current and Future Operating Budget:

This report does not propose a decision and there is no direct budget or business plan implication.

Current and Future Capital Budget:

There are no budget or business plan implications arising from this report.

Risk Assessment

No specific risks are associated with this report. Any risks arising from energy utility developments reviewed in the attachment will be addressed in a separate report if required.

REASON(S) FOR RECOMMENDATION(S):

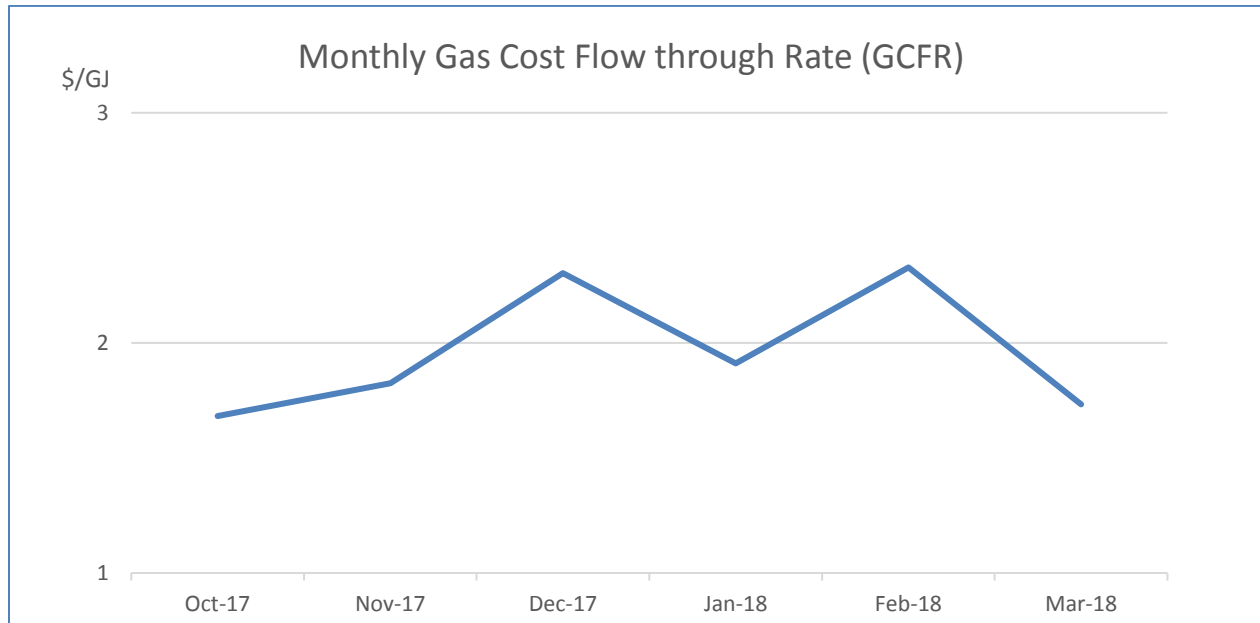
This report provides information to GPT Committee members to assist them in their understanding of regulatory issues that affect The City's interest

ATTACHMENT(S)

1. Attachment – Industry Update on Electricity, Natural Gas, and Telecommunications

ENERGY PRICES AND MARKETS**Natural Gas**

The March gas cost flow-through rate (GCFR) was \$1.73/GJ.

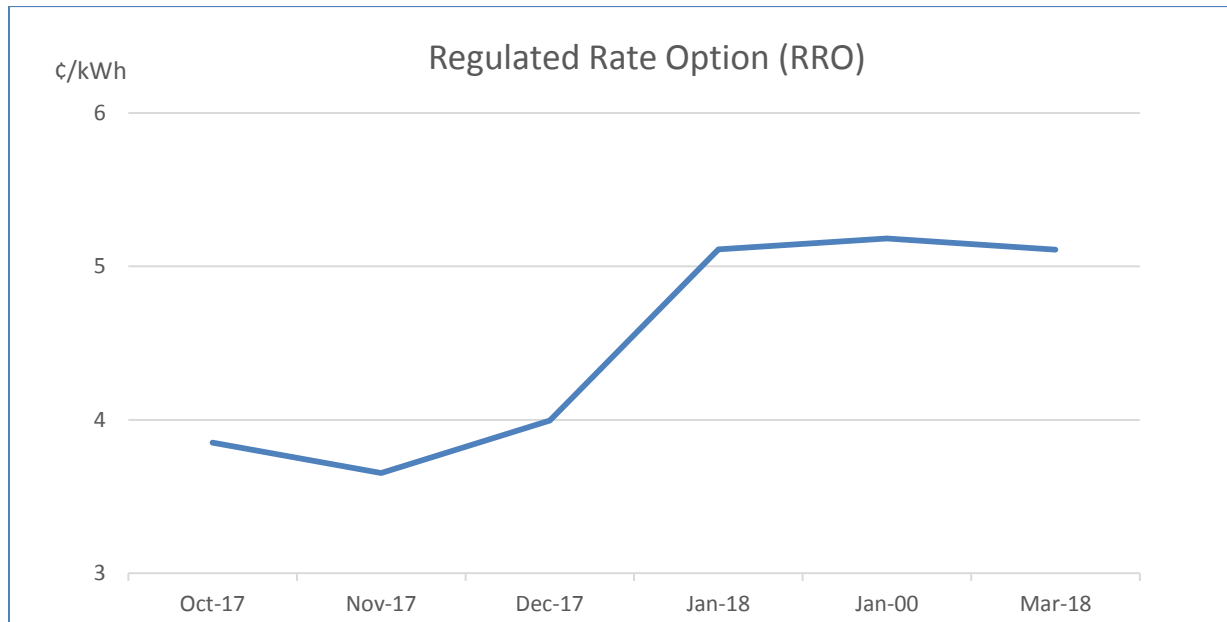


The decrease in the January GCFR was primarily due to an unusually warm December that lowered demand and the price of gas, which was partially offset by an increase in the carbon levy. January was colder than average, pushing up the price for natural gas in February. Generally, rates are expected to remain low for 2018 with the forward prices for the remainder of 2018 averaging only \$1.27/GJ.

Prior to the start of each month the GCFR rate is calculated by multiplying the estimated volumes required for the month times the forecast AECO-C gas price for that month. This amount is adjusted by adding the deferral account balance and an administration fee. This total amount is divided by the estimated volume to determine the GCFR per gigajoule for the month. During each month the required load balancing is added to the deferral account which is cleared in the following month.

Electricity

The regulated rate option (RRO) in March was 5.11¢ per kWh.



The price increase in January was primarily the result of the retirement of Sundance Unit 1, the mothballing of Sundance Unit 2, and the change in how carbon taxes are calculated for generators. On 2017 January 1, the Carbon Competitiveness Incentive (CCI) regulation replaced the Specified Gas Emitters Regulation (SGER). The amount of carbon tax that a generator must pay is now based on an emissions comparison to a benchmark facility rather than the historical emissions record of each facility.

UTILITY REGULATION**Power Purchase Arrangement (PPA) Terminations**

On 2018 March 9, the provincial government reached an agreement with ENMAX accepting the return to the Balancing Pool of both the Battle River 5 and the Keephills PPAs. In the agreement, ENMAX agreed to a transfer of 166,667 carbon offset credits to the Balancing Pool (BP) in payment for previously disputed and unpaid dispatch services and PPA transition matters. This agreement brings to a conclusion the legal proceedings that the Alberta Government brought against former buyers of PPAs. All PPAs have now been returned to the BP. Sundance B, Sundance C are to be terminated 2018 March 31, Battle River 5 is expected to be terminated by September 2018, and Genesee, Sheerness and Keephills are all scheduled to terminate 2020 December 31.

There are expected savings to the Balancing Pool from terminating PPAs where the net present value (NPV) of the future cash flows represents a larger loss than the net book value (NBV) that must be paid to the owner of the PPA facility on termination. The expected savings from termination of the Sundance B, Sundance C, Battle River 5 and Keephills PPAs as at 2017 December 31, with a median assumed Pool Price was \$789 million. For the Genesee and Sheerness facilities the forecast losses resulting from holding the PPAs are less than the NBV

that would have been paid to the generation facility owners and therefore they are not candidates for early termination. As at 2017 September 30, the Balancing Pool was experiencing losses of approximately \$50 million per month as a result of the returned PPAs. The losses will currently be less because of the rise in the price of electricity.

Alberta Capacity Market Consultations

In 2016, the Provincial Government announced the transition from an energy only market for pricing electricity to a new framework that includes both an energy market and a capacity market. The capacity market pays generators for a commitment to provide electricity in a future period.

City administration is involved in the development of the capacity market through participation in the Alberta Electrical System Operator (AESO) working groups that are assigned the task of designing a capacity market. City administration is currently participating in the Energy and Ancillary Services working group.

AESO has now completed the first draft of the Comprehensive Market Design, with the second draft expected by the middle of April 2018. Basic elements of the first draft include:

- Supply must be able to be dispatched throughout the entire delivery period. Generation capacity will be factored for either availability or utilization. Demand response will be able to participate in the market. Renewable energy program resources will be ineligible for the capacity market. Existing generation must offer into the capacity market.
- The target capacity volume will be set to meet the resource adequacy standard. Capacity payments are determined by the design of the Capacity Market demand curve that will reflect the Cost of New Entry (CONE) to ensure that price signals will bring new resources into the market when needed.
- The capacity market will have a three-year forward period and a one year delivery period. Two rebalancing auctions will be held at 18 months and 3 months prior to the delivery period.
- Although there will be some additional rules in the energy market to adapt to the capacity market, the energy and ancillary Services markets will remain largely the same. A number of enhancements to the energy market such as a day ahead market or raising the offer cap may be considered in the future as needed to address market evolution.

Alberta Retail Electricity Price Cap

Bill 16: An Act to Cap Regulated Electricity Rates received Royal Assent on 2017 June 7. The Bill ensures Alberta families, farms and small businesses on the Regulated Rate Option would not pay more than 6.8 cents per kilowatt hour from June 1, 2017 to May 31, 2021. If the rate exceeds the cap, the government will pay the RRO providers the difference between the actual price and the cap.

Due to market forces, the price for electricity is expected to increase in 2018 above 7.0 cents per kilowatt hour, as early as April. This could cost the Alberta Government upwards of \$5 million for the month of April, and potentially over \$30 million in 2018.

This Bill protects those in Calgary who are ENMAX customers that have chosen the RRO option. Those using other regulated retailers in Calgary who are not on a fixed price plan will not be protected from prices over 6.8 cents per kilowatt.

UTILITIES AND INDUSTRY DEVELOPMENTS

Alberta's Renewable Electricity Program (REP) Auctions

On 2018 February 5, the provincial Government has announced round 2 and 3 of the REP auctions. Round 2 will have a target of 300MW and will include an Indigenous equity ownership requirement. Round 3 will have a target of 400MW. The competition process is expected to begin at the end of March with final awards being announced in 2018 December.

Transmission Development

The Alberta Electricity System Operator (AESO) is the government entity responsible for ensuring that the transmission system is designed and operated to meet Alberta's electricity demands. AESO identifies new transmission development needs in Alberta and then seeks approval of the AUC for those developments. If approved, AESO assigns siting, construction, ownership and operation of the transmission development to a transmission facility owner (TFO).

AESO recently released its 2017 Long-term Transmission Plan (LTP). The LTP is the main forecast of where available capacity on Alberta's transmission system currently exists for new generation projects. The ability to connecting to existing transmission capacity will be a requirement for a project to qualify for this year's Round 2 and Round 3 of Alberta's REP auction.

The LTP has a few noteworthy items:

- Less money will be spent on transmission development in Alberta in the short-term than what was previously forecast. Stage 2 of the Southern Alberta Transmission Reinforcement (SATR) project will not proceed as it has been determined that it is not required at this time.
- The existing transmission system has a capacity to integrate 2,600MW of new renewable projects. AESO is focusing on new transmission developments that can accommodate an additional capacity of up to 5,000MW of renewable generation by 2030.
- Includes a forecast that by 2022 the Alberta-British Columbia intertie capacity will be restored to permit the importation of up to 1,200 MW of hydroelectricity from BC.
- AESO worries about the negative impact that the rapid ramping up and down of more renewables will have on the transmission system. AESO may need to change its ancillary service products to handle this.
- The LTP recognizes several challenges to designing Alberta's transmission system; it does not control the type and location of new generation projects, the timing of the retirement of coal plants, the conversion of coal-to-gas plants, or the construction of new cogeneration facilities. AESO is also concerned about the integration of new distributed energy resources that will be connected to the grid.

**Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 April 19**

**ISC: UNRESTRICTED
GPT2018-0441
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Decision Report – The 2018-2022 Performance Based Regulation Plans

EXECUTIVE SUMMARY

The Alberta Utilities Commission (AUC) has issued a decision that will determine the utility rates for the Alberta's gas and electric distribution utilities over the 2018 to 2022 Performance Based Regulation (PBR) term. The decision sets out how the 2017 revenue requirement is to be determined for each utility to set the going-in rates for 2018. This report summarizes the positions taken by The City in its intervention and the outcomes as set out in the AUC decision.

ADMINISTRATION RECOMMENDATION:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The City has participated in, and reported on, all of the previous AUC proceedings related to the development of the Performance Based Regulation regime. In GP2010-25, GPT directed Administration to participate in the PBR proceedings. The main PBR proceedings were the initial 2012 Rate Regulation Initiative, reported in GP2012-0711, and 2013 PBR Capital Trackers, reported in GP2014-0050.

BACKGROUND

The AUC decision on the Rebasing and Going-in Rates for the 2018-2022 PBR proceeding will determine the rates from 2018-2022 for AltaGas Utilities, ATCO Electric (distribution), ATCO Gas, Enmax Power, EPCOR Distribution and FortisAlberta.

In PBR, rates are set by determining the revenue requirement (total operating and maintenance costs plus the funding needed to support capital expenditures) for the initial year. For every other year of the PBR 5-year term, rates are increased according to a formula. While there are a number of allowed adjustments, the formula for increasing rates is basically inflation minus a productivity factor (I-X). With the revenue fixed for each year the utilities are incented to lower their costs so that they can increase their profitability. This incentive to develop efficiencies is designed to make the regulated utilities behave more like firms in a competitive market.

The utilities are able to keep any additional profits they are able to achieve through productivity gains over the 5-year PBR term. At the beginning of the next PBR term the utility rates are lowered theoretically to the point where the utilities are expected to achieve their approved return on equity. The benefit of productivity gains achieved by the utilities over the previous PBR term are transferred to ratepayers through a lowering of the rates. This is why the rebasing and determination of the going-in rates are so important to ratepayers.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Rebasing and Going-in Rates

In this proceeding, the utilities made compliance filings to an earlier AUC initiated proceeding that established parameters for the second generation of performance-based regulation plans. For operating and maintenance costs, each utility determined which year in the first PBR term had the least cost. The AUC provided the opportunity for each utility to apply for adjustments to

Decision Report - The 2018-2022 Performance Based Regulation Plans

the lowest cost year because of special circumstances, called anomalies, that made the operating and maintenance costs unusual for that year.

The utilities were directed to average the last three years of capital expenditures to arrive at a notional amount for annual capital additions. The annual capital additions are added to the adjusted rate base to calculate each utility's annual requirement for capital funding. Experience has shown that the annual capital funding component provided by the PBR formula is insufficient to support the actual capital expenditure programs of the utilities. Therefore a mechanism has been developed to provide additional capital funding.

Additional Funding for Capital – the K-bar Mechanism

In the first PBR term, additional funding for capital was managed through capital trackers. Capital trackers were a cost of service process where a capital funding shortfall was identified and additional funding was provided as needed. Capital projects were reviewed after completion and the additional amount of funding provided was adjusted with a true up proceeding. This process did not provide the PBR style incentive where the utilities were rewarded for finding efficiencies in their capital expenditures.

For the second PBR term the AUC wanted to bring funding for capital expenditures into the PBR framework. This required the determination of a base amount of additional funding required for capital in the initial year of the PBR term that would be increased annually by the PBR I-X formula. Epcor proposed the K-bar mechanism for providing additional capital funding and this was broadly accepted by the AUC.

The City evaluated the originally proposed K-bar mechanism and determined that it was too generous because the K-bar mechanism did not account for the declining value of the annual capital additions as they are adjusted for depreciation. In their decision, the AUC adjusted the K-bar mechanism to account for the annual application of depreciation to the rate base.

Anomalies – Adjustments to the Going in Rate

The anomalies applied for by the utilities became a hotly contested issue in this proceeding. The utilities offered a variety of interpretations for the definition of an anomaly leading to an inconsistency in the applications.

In coming to terms with what would qualify as an anomaly the AUC provided clarification by adding the requirement that an anomaly "must not be costs that each distribution utility, operating under the incentives of the PBR mechanism, unencumbered by incentives inconsistent with the PBR incentives, would have incurred in 2017". Following this clarification, the AUC denied all of the anomalies applied for by the utilities. Several utilities took exception to this treatment of their anomalies believing that it does not give them a reasonable opportunity to earn a fair rate of return and have filed applications at the Alberta Court of Appeal.

The City, which focussed its intervention on the ATCO PBR plan, submitted that ATCO should have its information technology costs treated as placeholders until the AUC decides on the ATCO Utilities IT Common Matters proceeding. The City was concerned that any adjustment to ATCO IT costs, including potentially a refund to ratepayers, should be made to ATCO's going in rates. The AUC decided in favour of The City's position on this issue.

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Decision Report - The 2018-2022 Performance Based Regulation Plans

Stakeholder Engagement, Research and Communication

This report provides a summary of The City's regulatory intervention and the AUC decision on the rebasing and going-in rates for the Alberta distribution utilities' 2018-2022 PBR plans. There was no stakeholder engagement, research or communications required.

Strategic Alignment

This report, and The City's intervention in this regulatory proceeding, is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

Social, Environmental, Economic (External)

This report has been reviewed for alignment with The City's Triple Bottom Line Policy Framework. No implications were identified.

Financial Capacity

Current and Future Operating Budget:

As the report does not propose a decision or course of action, there are no budget or business plan impacts.

Current and Future Capital Budget:

As the report does not propose a decision or course of action, there are no budget or business plan impacts.

Risk Assessment

There are no specific risks identified with this report. When regulatory applications are made that may affect The City's interests then participation by The City in a regulatory intervention is necessary to mitigate the risk of a decision contrary to The City's interests.

REASON(S) FOR RECOMMENDATION(S):

This report informs the GPT of the outcome of a regulatory proceeding in which The City intervened.

ATTACHMENT(S)

None