

ENERGY PRICES AND MARKETS

Natural Gas

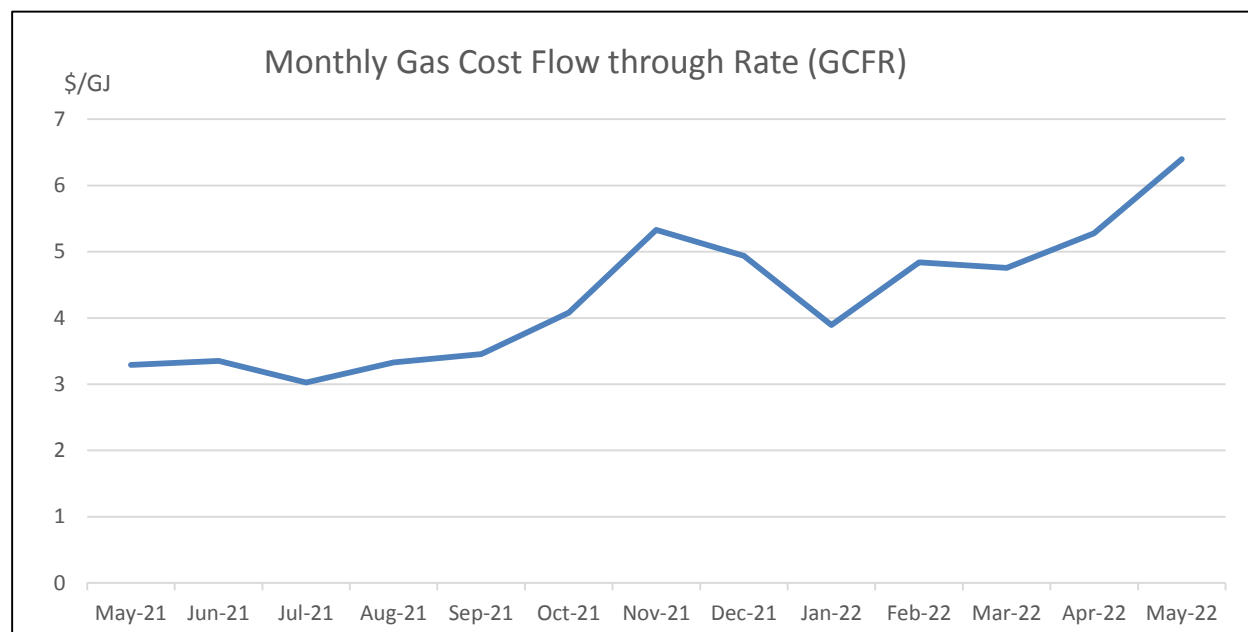
In Alberta, our regulated rate for natural gas is called the Gas Cost Flow-Through Rate. It fluctuates each month due to several factors. Notable ones include supply and demand and weather changes.

The 2022 May Gas Cost Flow-Through Rate was \$6.40 per gigajoule. Prices are unusually high for May (Figure 1). As a result, it puts upward pressure on energy costs for The City of Calgary and the Calgary community.

Natural gas prices in Alberta have climbed as geopolitical issues in Europe have helped fuel commodity inflation across the globe. Closer to home, below-average inventories and elevated liquefied natural gas export demand have also placed upward pressure on natural gas prices.

The market remains volatile. However the generally accepted natural gas industry price forecast has prices trending downward into the summer of 2022.

Figure 1 – Monthly Gas Cost Flow through Rate (\$/Gigajoule)



Electricity

A safety net ensures a baseline price for businesses and residents to fall back on in the case of high retail electricity rates or other unanticipated problems. Any business or residence that uses less than 250,000 kilowatt-hours per year can choose to pay the regulated rate.¹ This regulated electricity rate is the Regulated Rate Option. The Alberta Utilities Commission determines the Regulated Rate Option rate, which is highly influenced by the spot price for electricity and its

¹ The average home in Alberta uses about 7,200 kWh per year. See <https://gas.atco.com/en-ca/products-services-rates/rates-billing-energy-savings-tips/energy-101.html>

volatility. The ENMAX regulated rate option price for 2022 May was 9.97 cents per kilowatt-hour. It represents a significant change from earlier in the year (Figure 2).

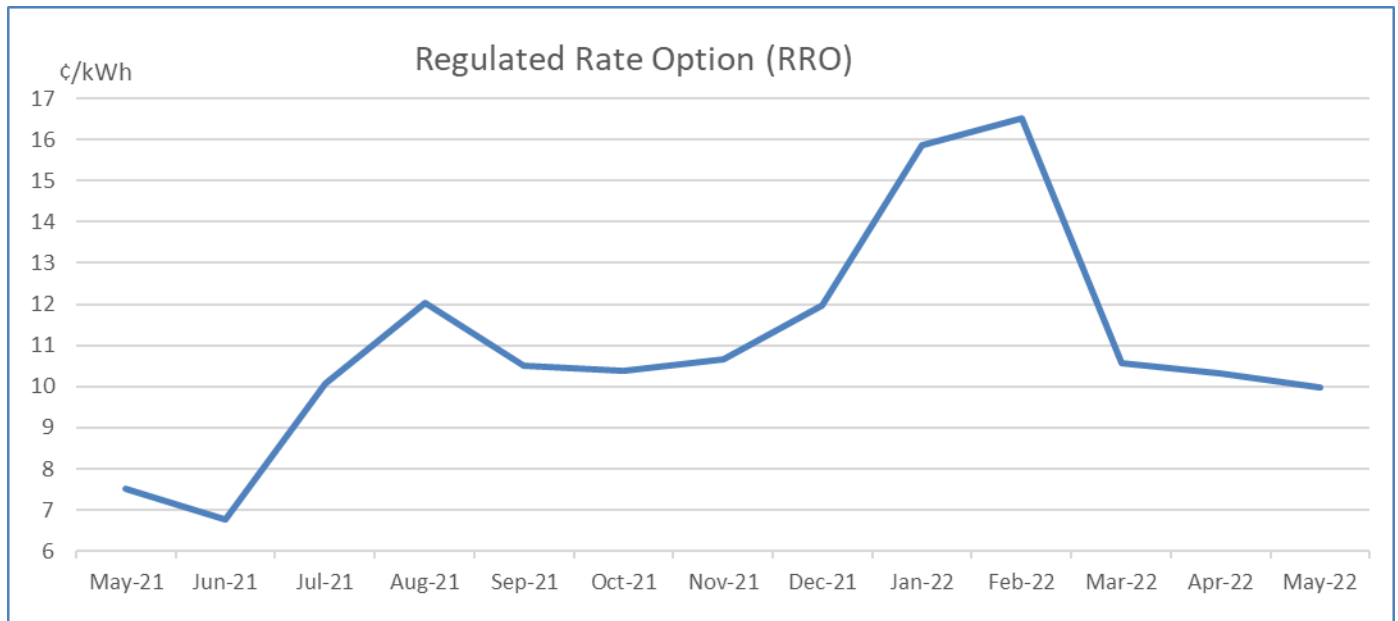
In 2022 February, the ENMAX residential regulated rate option price (16.52 cents per kilowatt-hour) was at its highest level since the provincial government restructured the regulated rate option in 2006. This exceptionally high regulated rate option price reflected, in part, abnormal strength and volatility in Alberta wholesale electricity prices from 2021 December to 2022 February.

The higher electricity prices in Alberta from 2021 December to 2022 February were driven by:

- Increased demand;
- Additional baseload generator outages;
- Unseasonable cold in Alberta in December;
- A more aggressive price for carbon;
- Higher generator offer prices; and
- Firmer natural gas prices.

The monthly average wholesale price in 2022 May was 12.2 cents per kilowatt-hour. The generally accepted power industry price forecast has prices remaining strong for the rest of the year, averaging 12.26 cents per kilowatt-hour.

Figure 2 – Regulated Rate Option (¢/kWh)



UTILITIES AND INDUSTRY DEVELOPMENTS**Natural Gas – City of Calgary Regulatory Staff Provide testimony in ATCO Gas 2023 Rates Proceeding**

On 2022 May 25, City of Calgary regulatory staff Ken Wyllie and Ben Whyte and IT technical consultant Jim Stephens provided virtual testimony in support of evidence filed by the City in the Alberta Utilities Commission Proceeding 26616 (ATCO Gas 2023 Cost of Service Review).

The three-person Calgary panel responded to a number of questions from Commission Members and Counsel regarding the proposed IT costs being applied for in the 2023 ATCO Gas rates proceeding. It is the position of the City that the IT costs being applied for by ATCO Gas do not reflect just and reasonable rates.

The table below provides a summary of ATCO Gas earnings over this time.

Table 1 – ATCO Gas earnings (approved versus actual)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Approved earnings	8.30%	8.30%	8.30%	8.30%	8.50%	8.50%	8.50%	8.50%	8.50%
Actual earnings	11.86%	10.95%	11.10%	12.93%	16.03%	11.03%	11.21%	10.80%	11.81%
Difference	3.56%	2.65%	2.80%	4.63%	7.53%	2.53%	2.71%	2.30%	3.31%

The percentage difference between the approved and actual earnings of ATCO Gas represents ratepayer funds which have accrued to the account of the ATCO shareholder. The difference represents millions of dollars each year.

ATCO Gas has taken the position in this proceeding that the consistent over-earning is the result of various cost-cutting measures. City of Calgary evidence has conversely shown that rates have been too high and should be adjusted downward in 2023. The Commission will likely release a decision in this proceeding in the third quarter of 2022.

Electricity – Strong deficit reduction leads to proposed electricity rebate

On 2022 April 20, the Alberta Government announced Bill 18, the *Utility Commodity Rebate Act*, which would establish new legislation to provide taxpayer-funded electricity and heating rebates to Albertans.

The new act would enable the creation of an Electricity Rebate Program and a Natural Gas Rebate Program to help Albertans manage the cost of electricity and natural gas. Most households, small apartment buildings, farms, and small industrial and commercial businesses would be eligible for both rebates. This includes an electricity rebate that would provide help to more than 1.9 million families, farms and businesses who experienced high electricity charges in January, February and March 2022.

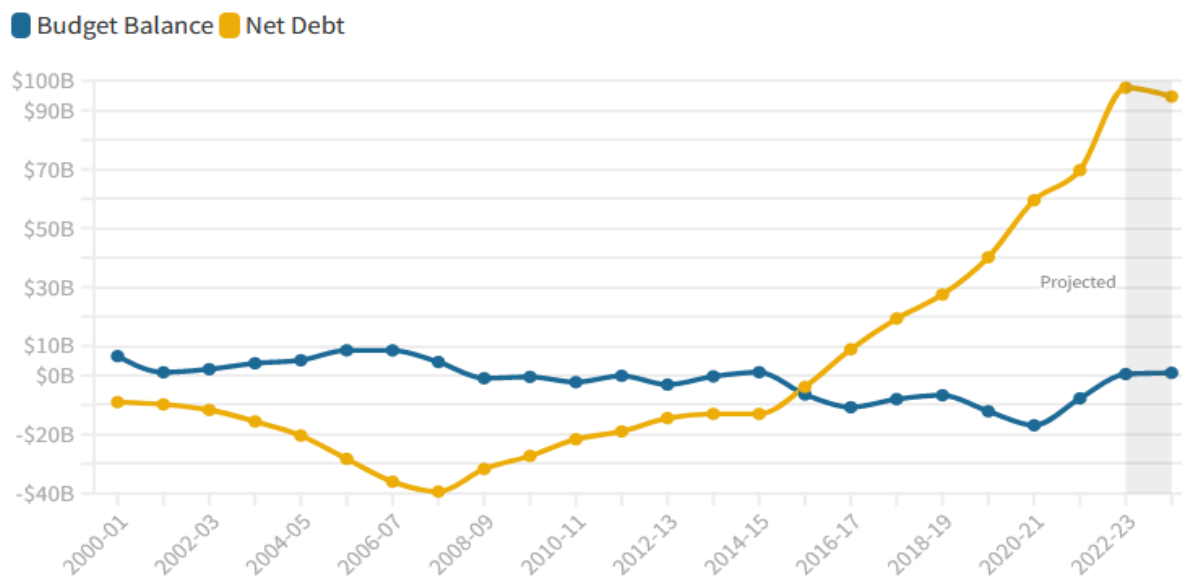
The specifics of the proposed bill would have taxpayer funds provide electricity rebates of \$50 per month for 3 consecutive months, for a total rebate of \$150, for customers whose electricity use is under 250 MW hours per year, along with a natural gas rebate if regulated natural gas rates exceed \$6.50 per gigajoule next winter.

The Alberta Government recently balanced its budget for the first time since 2014/2015, reporting a surplus of \$500 million (and a \$700-\$900 million surplus expected over the next year). Alberta still has a net debt of almost \$100 billion. The balanced budget is largely the result of surging oil prices, which have more than doubled from the government oil price forecast (U.S. \$46/bbl) used in its budget calculations. The graph below shows Alberta’s net debt and budget balance since 2000.

Alberta Provincial Net Debt and Budget Balance since 2000

Measured in \$ billions

Graph: Matthew Black / CTV News



Source: [RBC Economics, 2022 Alberta Budget](#)

The *Utility Commodity Rebate Act* (Bill 18) is expected to be passed in the 2022 Spring sitting of the Alberta legislature.

Telecommunications – Acquisition of Shaw Communications by Rogers Communications

On 2022 March 24, the Canadian Radio-television and Telecommunications Commission released its [decision](#) concerning the acquisition of Shaw Communications by Rogers Communications. The Commission approved Shaw’s \$26 billion acquisition by Rogers, subject to conditions and modifications.

In its decision, the Commission said that the proposed merger would be in the public interest, would not impact the competitive landscape and would not diminish the diversity of voices in Canada. Among its conditions, the Commission requires Rogers to:

- Contribute \$27 million to various media and local news initiatives and funds;
- Create an Indigenous news team with journalists in all provinces; and
- Report annually on its commitments to increase its support for local news.

On 2022 May 9, however, the Competition Bureau announced that it is seeking a “full block” of the acquisition to protect Canadians from higher prices, poorer service quality and fewer choices, particularly in wireless services. The Competition Bureau alleges that removing Shaw as a competitor threatens to undo “significant progress” made by introducing more competition into an already concentrated wireless services market where Rogers, BCE Inc.’s Bell Canada, and Telus Corp. serve about 87 per cent of Canadian subscribers.

Rogers plans to file a formal response to defend the proposed merger before the Competition Tribunal, and will continue to engage with regulators in order to close the deal. The two companies had intended to seal their merger by the end of 2022 June, but when the competition concerns first surfaced in early 2022 May, they extended the “outside date” for the closing to 2022 July 31.