

ENERGY PRICES AND MARKETS

Natural Gas

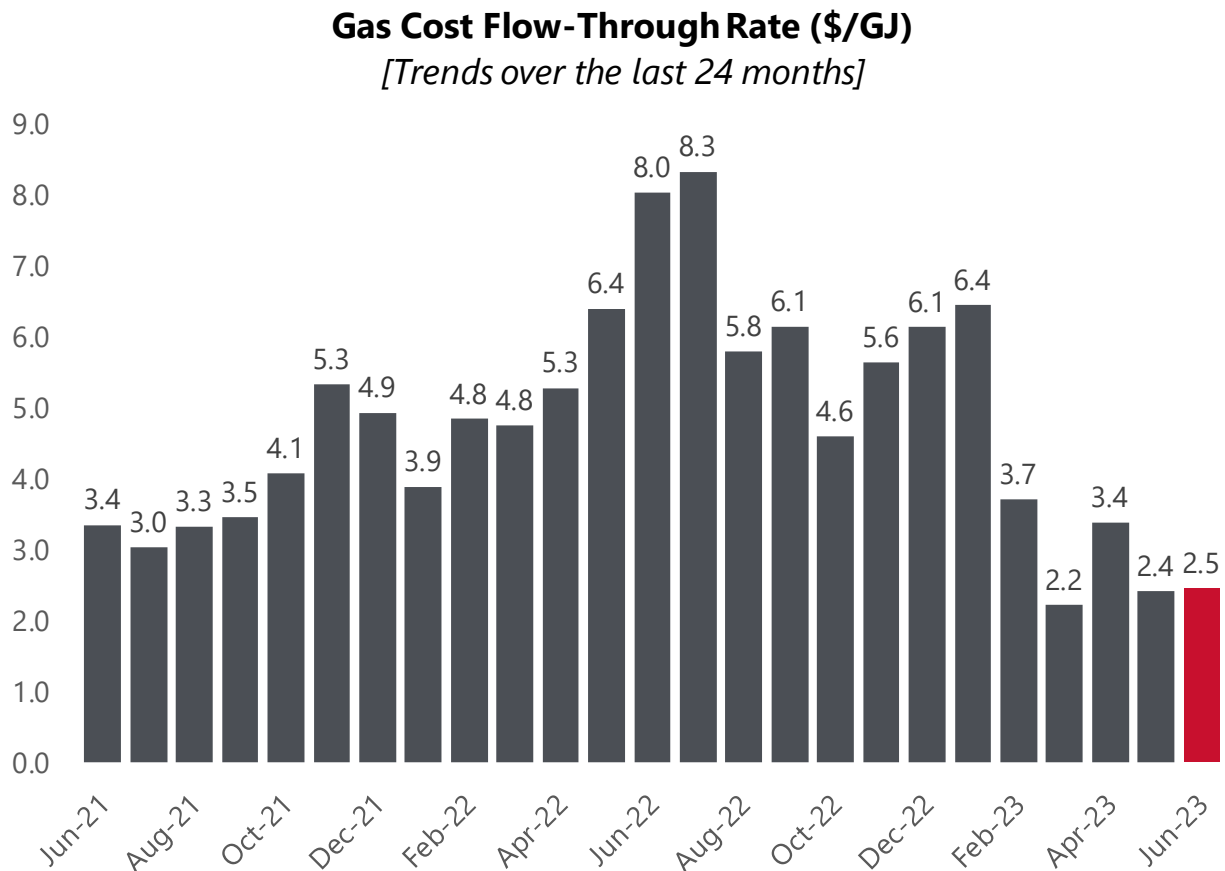
In Alberta, the regulated rate for natural gas is called the Gas Cost Flow-Through Rate. It fluctuates each month due to several factors. Notable ones include supply, demand and weather changes.

Prices have been stable recently, as shown in Figure 1. The 2023 June Gas Cost Flow-Through Rate was \$2.45 per gigajoule.

Natural gas prices in Alberta have declined this year due to a lack of available firm transport capacity out of Alberta into other more lucrative markets. In addition, periods of pipeline maintenance have even caused intra-day gas prices to go negative, forcing producers to choose between operating at a loss or shutting in wells.

However, the generally accepted natural gas industry price forecast has stable prices throughout the summer and into the fall space heating season.

Figure 1: 24-Month Price Trend for the Monthly Gas Cost Flow-Through Rate

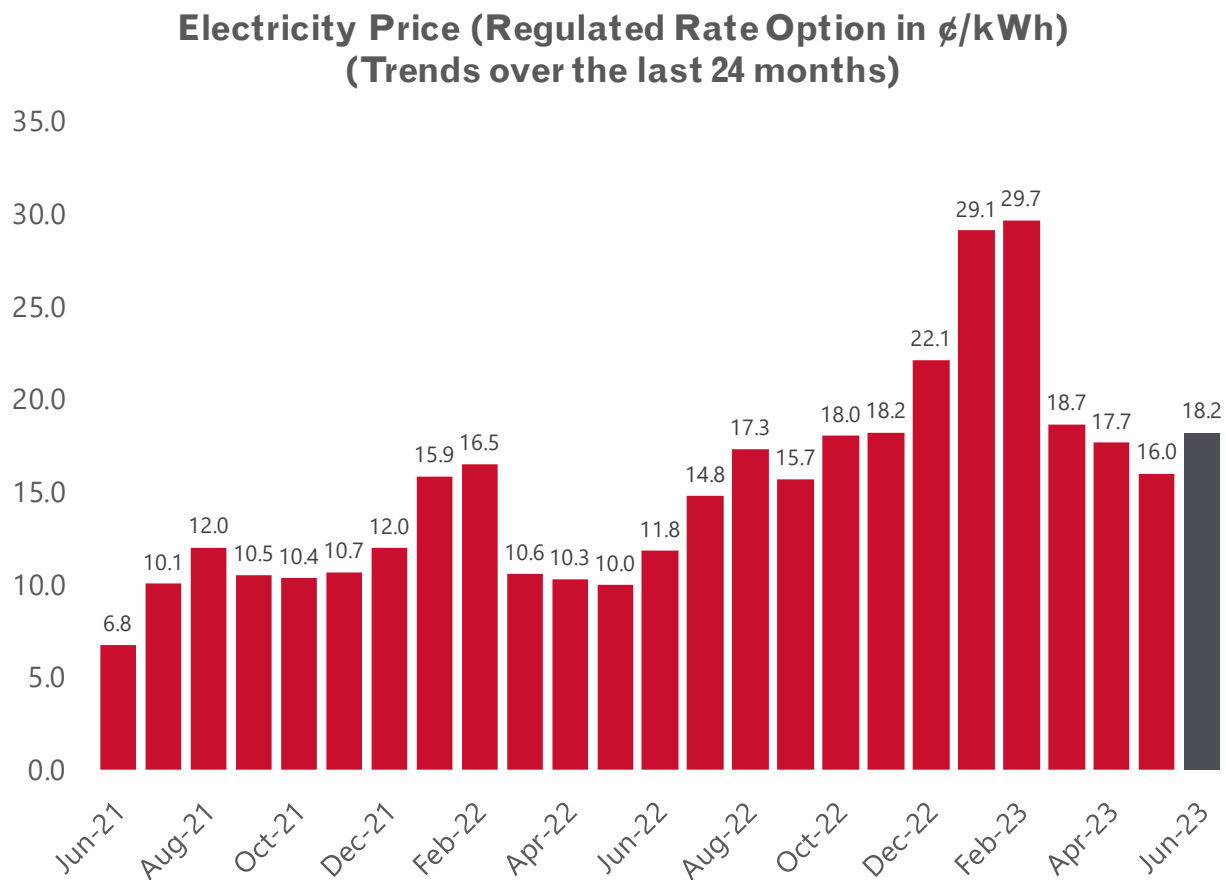


Electricity

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 using 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 volatility. The ENMAX regulated rate option price for 2023 June was 18.23 cents per kilowatt-hour (Figure 2).

The monthly average wholesale price in 2023 May was 15.3 cents per kilowatt-hour. The difference between what customers pay and the wholesale price is due to the specific monthly approvals from the Alberta Utilities Commission. Each retailer submits detailed Regulated Rate Option monthly price applications, which are reviewed for their correlation to the wholesale market. The generally accepted power industry price forecast remains high for the rest of the year, averaging 14.36 cents per kilowatt-hour.

Figure 2: 24-Month Price Trend for the Regulated Rate Option



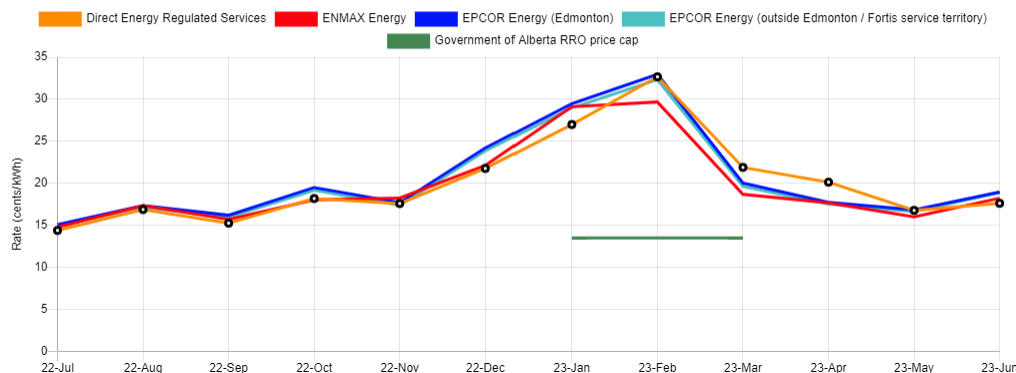
¹ The average home in Alberta uses about 7,200 kWh per year. See <https://gas.atco.com/en-ca/products-services-rates/rates-billing-energy-savings-tips/energy-101.html>

UTILITIES AND INDUSTRY DEVELOPMENTS

The January to March 2023 Government of Alberta Regulated Rate Option Price Cap

As part of its *Affordability Action Plan*, the Government of Alberta announced “electricity price protection” for consumers on the Regulated Rate Option (RRO). This particular initiative involved capping the RRO rate that customers will be charged in January to March 2023 (inclusive) at 13.5 cents per kilowatt hour.

Variable regulated rate option (RRO)



(source: <https://www.auc.ab.ca/current-electricity-rates-and-terms-and-conditions/>)

As can be seen above, the actual RRO for January to March 2023 came in well above the 13.5 cents per kilowatt hour price cap (green line).

As outlined in [An Act to Cap Regulated Electricity Rates](#), the difference in prices observed between the actual RROs and the 13.5 cents per kilowatt hour price cap are tracked, and will be recovered, with interest, through deferral accounts. These costs will be recovered from April 2023 to December 2024, inclusive, through RRO ratepayers. The Government of Alberta has projected that this will result in a 2 to 4 cent increase per kWh in the RRO rate over the 21-month recovery period. The Government of Alberta has estimated that there are “currently 700,000 to 800,000 consumers on the RRO.”²

A 2023 May 25 [CBC article](#) estimates that a deferred bill of \$200 million was created as a result of this RRO price cap. University of Calgary economist Blake Shaffer has equated this RRO deferral scheme to a “buy now and pay later” program that is currently adding about 2.5 cents per kilowatt hour to the monthly bill for customers who don’t have a fixed price contract. Dr. Shaffer has also cautioned that those who leave the RRO don’t have to pay their share of the deferral,³ and that this option is not available for all Alberta ratepayers, such as those with a low (or no) credit rating. Bad or no credit may prevent thousands of existing RRO rate payers from signing electricity contracts. While the RRO deferral scheme did cap RRO rates in January-March 2023, RRO customers now face greater costs through interest on deferral charges, and the risk that the total deferral charges will now be spread among a smaller rate base, resulting in greater costs for customers who remain under the RRO.

² <https://www.alberta.ca/affordability-action-plan.aspx>

³ Section 4.4(5) of *An Act to Cap Regulated Electricity Rates* stipulates that “the owner shall increase the electric energy charge on the bills sent to the owner’s regulated rate customers for that calendar month by the amount that will be sufficient to recover the instalment.”

2023 Canadian Association of Members of Public Utility Tribunals conference

From 2023 May 7 to 2023 May 10, regulatory staff attended the Canadian Association of Members of Public Utility Tribunals conference in Toronto, Ontario. This is an annual conference focused on effective utility regulation, with a focus on ensuring that:

- consistent and effective regulatory regimes exist throughout Canada,
- interested parties are effectively engaged in the development of a successful regulatory compact, and;
- policymakers are well informed of regulatory developments as input to developing effective public policies.

The 2023 conference emphasized how utility regulation will need to be more active in ensuring that the industry meets net-zero decarbonization goals. The spectre of further significant rate increases for utility consumers loomed large over the conference. The conference topics were as follows:

- Brave Leadership for the Energy Transition
- Time for Regulatory Leadership in Energy Transition
- Necessary Alliances to Achieve Net-Zero
- Indigenous Clean Energy (ICE) Youth Showcase
- Adapting to Climate Change
- Scaling Up and Accelerating Innovation
- Embracing Diversity, Equity and Inclusion
- Energy Security and the Just Transition
- What Do The Polls Show?
- The Time to Act is Now: The Race to 2050
- Regulators' Last Word

Three takeaways from recent public opinion polls presented on the final day of the conference are as follows:

1. Public momentum in favour of action on climate change has plateaued for most of the last decade. Generally speaking, Canadians do not deny the problem. However, there are some signs of skepticism toward climate leadership. Some of that skepticism is attributable to an unwillingness to pay the higher rates required to transition to using less fossil fuel.
2. Public opinion is not a fundamental problem inhibiting building renewable energy infrastructure. When measuring the reaction to real projects, the most frequent response is support. Many Canadians who don't like the projects feel they are necessary. It means policymakers should not take favourable public opinion for granted – policymakers must continue working to retain and earn support.
3. Public opinion on quality of regulatory outcomes makes a big difference in people's willingness to pay more for the energy transition. People who agree that the process is transparent, accountable, and protects consumers are typically twice as willing to pay more for the transition than those who disagree.

The 2024 conference will take place in Calgary on 2024 May 5-8.

Implications of Provincial and Federal Government Energy Policy Divergence for Calgary

In 2023 March at the Rural Municipalities of Alberta spring convention, Premier Smith stated the following concerning the future use of natural gas for electricity generation in Alberta:

“Alberta is a natural gas basin. We are a natural gas province, and we will continue to build natural gas power plants because that is what makes sense in Alberta.....Yes, hydro makes perfect sense in Quebec and BC and Manitoba. And Ontario has nuclear and hydro as well. But we have to keep fueling our economy with natural gas power plants.”

However, the Government of Alberta’s view is at odds with the federal government’s desire to eliminate the use of fossil fuels (including natural gas) from electricity generation. The federal government released the [Sustainable Jobs Plan](#) on 2023 March 8, intending to help workers in the oil and gas sector move into green energy jobs. Later in 2023, the federal government should introduce “just transition” legislation to accompany the plan.

Most (about 96 per cent in 2022) of the electrical power generation used by residential and non-residential customers in Calgary is from natural gas-fired plants. City Administration continues to monitor developments and implications for The City.