

## UTILITIES AND INDUSTRY DEVELOPMENTS

### Pause on approvals for new renewable electricity generation in Alberta

On 2023 August 3 the Alberta Utilities Commission (AUC) announced that it will hold an inquiry into the ongoing economic, orderly and efficient development of electricity generation in Alberta, at the direction of the Alberta government through an order-in-council.

In addition, the Alberta government passed the *Generation Approvals Pause Regulation* through an order-in-council that will require the AUC to pause approvals of new power plants and hydro developments that produce renewable electricity over one megawatt while the inquiry is being conducted, beginning immediately, for a six-month period until 2024 February 29.

The AUC has been directed to inquire into, and report on the following:

- Considerations on development of power plants on specific types or classes of agricultural or environmental land.
- Considerations of the impact of power plant development on Alberta's pristine views.
- Considerations of implementing mandatory reclamation security requirements for power plants.
- Considerations for development of power plants on lands held by the Crown in Right of Alberta.
- Considerations of the impact the increasing growth of renewables has to both generation supply mix and electricity system reliability.

This pause comes during a time of record high Regulated Rate Option (RRO) prices in Alberta. In the Alberta electricity market there is a direct relationship between high winds and lower electricity prices. With no fuel cost, wind farm operators bid into the system at zero as it doesn't cost them anything to produce their power. Bidding in at zero drags the price of the whole unregulated electricity pricing system down which is obviously beneficial for Alberta ratepayers.

On 2023 August 22, the AUC clarified that it would continue to process new and existing applications affected by the *Generation Approvals Pause Regulation* during this pause period, but that no approvals will be issued until the pause period expires.

With the Alberta government taking a more activist role in the power generation market it will be interesting to see if the AUC experiences additional regulatory capture. Regulatory capture occurs when a regulator such as the AUC is co-opted to serve the commercial, ideological or political interests of another entity rather than the public interest.

## ENERGY PRICES AND MARKETS

### Natural Gas

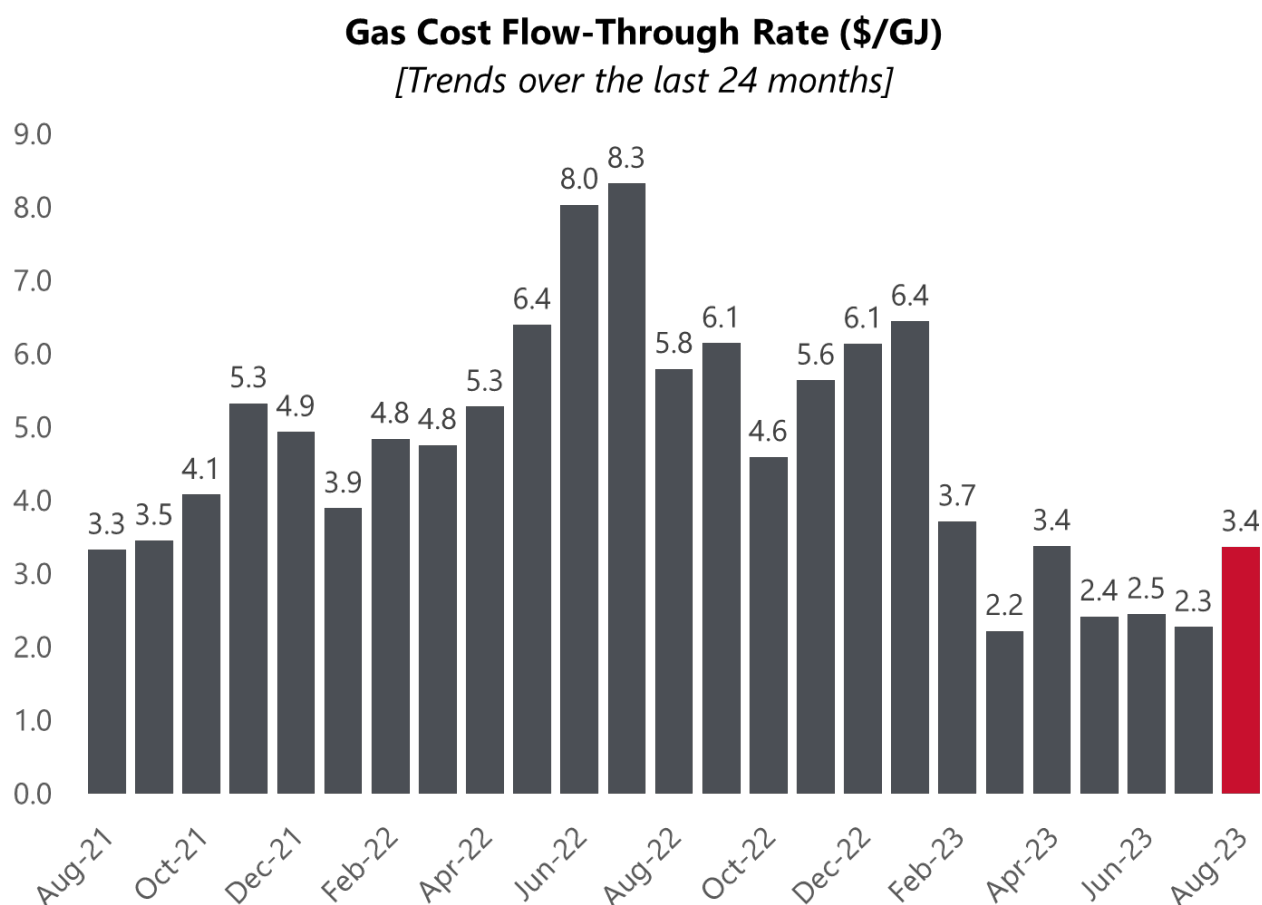
In Alberta, the regulated rate for natural gas is called the Gas Cost Flow-Through Rate. It fluctuates each month due to several factors. Notable ones include supply and demand, and weather changes.

Prices have remained low over the spring and summer of this year, with the 2023 August Gas Cost Flow-Through Rate sitting at \$3.4 per gigajoule (Figure 1).

Natural gas prices in Alberta have declined this year, in comparison to 2022, 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.

The generally accepted natural gas industry price forecast has stable prices throughout the summer and into the fall space heating season, which may help bring Alberta electricity prices down from their record highs. Local access fee revenue for natural gas in 2023 is forecast to be \$60 million, a positive variance of \$1.43 million for the year.

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



**Electricity**

Any business or residence using less than 250,000 kilowatt-hours per year can choose to pay the regulated rate.<sup>1</sup> This regulated electricity rate is the RRO. The AUC determines the RRO rate, which is highly influenced by the spot price for electricity and its volatility. The ENMAX RRO price for 2023 August was 31.9 cents per kilowatt-hour (Figure 2). This is a new record high for the RRO.

<sup>1</sup> 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>

The monthly average wholesale price in 2023 August was 13.0 cents per kilowatt-hour. The difference between what customers pay and the wholesale price is due to the specific monthly approvals from the AUC. Each retailer submits RRO 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 15.8 cents per kilowatt-hour. This in turn will likely lead to continued RRO strength for the balance of 2022. 2023 Local Access Fee revenue is forecast to be \$255 million, a positive variance of \$138.33 million due to continued historic strength in electricity prices.

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

