

Introduction

In AUC Bulletin 2024-016, the AUC invited interested parties to provide feedback to improve the effectiveness of rate proceedings for transmission utilities. The Alberta Federation of Rural Electrification Associations (AFREA) appreciates the opportunity, and provides the following proposals and observations.

In making any adjustments to the process for rate proceedings, the AFREA encourages the AUC to keep the customer's interest at the forefront of its considerations. As the AUC well knows, the regulation of utilities in Alberta acts as a surrogate for competition. The utilities are the gatekeepers of information and are accountable to their shareholders, not the customer. Therefore, it is essential that the AUC afford significant weight to the customers' interests when fulfilling its public interest mandate; particularly in rate proceedings which have a very direct and quantifiable impact on the wallets of customers. It is within this context that AFREA provides its specific responses to the issues raised by the AUC below.

Information Asymmetry

In reviewing the AUC Bulletin 2024-016 related to Consultation on improvements to rate proceedings for transmission utilities, the AFREA highlights the issue of Information Asymmetry. It is a well-known issue in Alberta utility regulation. Each utility has all of its information and can choose what information to disclose and when it will be disclosed.

In that regard, the AFREA would raise the concept of being completely truthful compared to being truthfully complete. The AFREA has no doubt that each utility, and the utility witnesses and representatives, endeavour to be completely truthful in all information that is disclosed. That does not mean that they are truthfully complete. The concept of being truthfully complete means that all information would be disclosed, even if it may mitigate against a utility position. It is important that a utility disclose all information on an issue, whether that information supports the utility position, or could be seen to be contrary to the utility position.

In any attempt to introduce a more streamlined approach to utility rate setting, it is important that the AUC take steps to mitigate against information asymmetry and ensure that all utilities are not only completely truthful, but are truthfully complete. In any endeavour to streamline the process, it is important that there be a high degree of trust among and between all parties.

In that vein, in any negotiations, parties, particularly interveners, rely exclusively on utility information and representations. It is important that there be a more streamlined approach to interveners to reopen agreements when there has been a misrepresentation of information or information has been withheld.

Streamlining recommendations

The AFREA would suggest that the AUC consider a formulaic or mechanistic approach to the review and approval of many of the costs of a transmission utility. Many of the costs are regular and recurring, including much of the O&M and Capital Maintenance costs that a transmission utility incurs. Under a mechanistic approach, many costs could be forecast by using historical data and applying an inflation and productivity factor. AFREA proposes this mechanistic process as a starting point, then requiring the utility to provide a detailed examination of any forecasts that will not follow the mechanistic approach.

Such an approach is similar to the approach used in the PBR cost of service rebasing year for 2023.

Certain costs, including Direct Assign Capital, programs that end or cease, growth capital or other new projects or programs would require a more detailed review.

As this is a new approach, there should be some form of reciprocal earnings sharing mechanism that would allow for protection from extreme outcomes. In addition, there should be a detailed review and assessment of methodologies every 4 or 5 years.

Materiality

In its Bulletin, the AUC also discussed a materiality threshold. The AFREA agrees that a well-structured materiality threshold can create efficiencies. Any materiality threshold must be structured to represent the size of the utility. A larger materiality threshold would apply to a larger utility.

While AFREA agrees that a materiality threshold is desirable, lessening oversight over certain areas cannot mean no oversight. For this reason, AFREA proposes that any projects, programs, or expenditures that are included in an application and are below the materiality threshold in the application, and approved with no review, cannot be deemed to be approved in subsequent proceedings, should the size of the project, program, or expenditure increase to exceed the materiality threshold. Approval of a project, program, or expenditure that is lower than the materiality threshold cannot be used as a reason to prevent any review or scrutiny of subsequent years costs should the size of the project, program or expenditure increase to exceed the materiality threshold. Further, the materiality threshold should be at a cumulative or group level. As an example, there may be a number of growth projects that, individually, fall below the materiality threshold, but cumulatively exceed the threshold. In such cases, a utility should not be allowed to avoid oversight just by breaking a program into smaller projects.