

Rule 011

Rate Application Process for Water Utilities

This rule was approved by the Alberta Utilities Commission and is effective **Month XX, Year.**

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1 Introduction

This rule applies to applications for approval of water rates for investor-owned water utilities. This rule does not apply to water utilities owned or operated by a municipality unless the municipality has passed a bylaw submitting to the jurisdiction of the Alberta Utilities Commission (AUC or Commission).

It is intended to provide information to water utilities and their customers about how the AUC reviews, assesses and decides on water rate applications.

It is also intended to assist utilities in preparing the application and customers in participating in the review process. By minimizing the need for utilities or customers to hire consultants and legal counsel, this rule also helps reduce costs associated with the regulatory process. These costs are typically recovered from customers in utility rates.

Under current Alberta legislation, wastewater service does not fall under the AUC's rate regulating authority.

In response to an application the AUC may declare that a water utility or portions of its systems are not a public utility, or that certain legislative requirements, including the AUC's rate regulation authority, do not apply to that water utility.

2 Definitions

In this rule:

- (a) "AUC" or "Commission" means the Alberta Utilities Commission.
- (b) "Staff" means an employee or employees of the AUC.
- (c) "Close of record date" means the final date of the application review and assessment, or record development stage. This is typically the date that the last step in the process is concluded (e.g., the filing of reply argument).
- (d) "Revenue requirement" is the amount a utility must collect from its customers to recover the costs it expects to incur to provide utility service.

3 Overview of the water rate application process

The following is an overview of the process to review and assess applications to analyze the utility's revenue requirements in order to set water rates. Each of these steps is discussed in further detail in subsequent sections of this rule.

3.1 Application development

The water utility prepares its application prior to filing it with the AUC for approval. AUC staff will review the application to ensure it is complete and will issue a letter outlining deficiencies if it is incomplete. This process may require several revisions to obtain a complete application. These process steps are typically not on the public record. More information about the application development stage is included in Section 4.

3.2 Public information session

Once the application has been deemed complete by AUC staff, the application is filed on the public record. AUC staff may schedule a public information session for the utility's customers. This session is intended to provide information to customers about the AUC, how it assesses and decides on rates for water utilities and how customers can participate in that process.

3.3 Application review and assessment

This is the formal written process through which the AUC will assess the reasonableness of the utility's application and obtain any additional information needed to allow the Commission to make decisions on the application. Customers will also have the opportunity to ask questions in writing and submit their position on the application. This is often referred to as the record development stage, and the date on which it ends is the close of record date.

A rate application must be complete before the application review and assessment can be started. Application review and assessing, including customer participation, is typically done in writing through the eFiling System. The eFiling System can be accessed at the following link: [eFiling System](#).

3.4 Commission decision

Once an application has been reviewed and assessed, the AUC will prepare and release a written decision that outlines its findings and determinations concerning the application.

4 Application development

- 4.1** The utility is responsible for drafting an initial application and sending it to the AUC for a completeness assessment by AUC staff.
- 4.2** A water rate application should include all the information the AUC needs to assess and make its decision on a rate application, and should include sufficient evidence and justification supporting the utility's proposed costs and rates. The information required as part of a water utility rate application is described in further detail in Section 5 of this rule.
- 4.3** Utilities are encouraged to communicate with AUC staff early in their efforts to prepare a water rate application and to share a draft of the application with AUC staff before uploading it to the eFiling System. This will allow AUC staff to do an initial review for completeness prior to the application being made public. If the application is deemed incomplete after it has been uploaded to the eFiling System, the AUC will notify the utility. If the utility does not correct the deficiencies in a timely manner, the AUC may return the application to the water utility and close the proceeding.
- 4.4** The review for completeness ensures that the application includes all the necessary information for it to be assessed. It is in the public interest to make sure the application is complete before starting application review and assessment. Even after the application has been deemed complete by AUC staff, the Commission may request additional information and clarification as part of the application review and assessment stage, as set out in Section 6 below.

5 Requirements for water rate applications

- 5.1** An application for water rates must include sufficiently detailed information about the utility. This information should typically include:
 - (a) A summary of the revenue requirement and rates proposed for approval by the utility, including a comparison to the existing rates currently being charged and examples of the impact of the proposed rates on typical customers.
 - (b) History of the utility's ownership including a full description of the current ownership and all affiliated corporations. This should also include applicable corporate registry documents.
 - (c) Information about the number and types of customers served by the utility, and the historical and forecast water consumption of those customers.
 - (d) Details of each class of service and an explanation as to how that structure was developed if the existing rate structure includes different customer classes of service.

- (e) Physical description of the utility system and capital infrastructure assets making up the system.
- (f) Description of and documentation for any government and municipal approvals, licences and agreements for the utility.
- (g) Descriptions explaining the costs included in the utility's revenue requirement for the years the application covers, including an explanation of why those costs are necessary for providing water service to customers.
- (h) At least three years of historical actual data for the costs included in the revenue requirement, with explanations for any significant changes in the amounts of those costs from year to year and from Commission-approved forecasts to actual costs (referred to as variance explanations). If three years historical costs are not available, the utility must adequately explain why it cannot provide them.
- (i) The current terms and conditions of service for water service provided by the utility, setting out the rights and obligations of both the utility and its customers. If the application includes a proposal to change the terms and conditions, the utility should file a blackline version that clearly tracks all applied-for changes.

5.2 The Commission sets rates on a prospective (i.e., based on forecasts of future costs) basis. Applications for water rates should generally be for two to three future years. The utility has an obligation to demonstrate that:

- (a) Its forecast costs are reasonable and supported by logical forecasting methods and assumptions. This means that it may be required to provide evidence (e.g., invoices) to support its historical costs and to justify any significant changes in forecast costs. Evidence of past revenue collection for the utility may also be helpful in supporting the utility's forecasts.
- (b) Its costs are prudent. This means that the utility must explain why the costs are necessary for providing water service, and it may be required to provide additional evidence (e.g., comparisons to other comparable utilities' costs or multiple quotes) to demonstrate that the cost is not overpriced.
- (c) Its proposed rates are properly calculated based on the forecast costs and resulting revenue requirement and forecast consumption. Depending on the complexity of a utility's rate design (e.g., costs allocated differently to multiple rate classes), it may also need to provide supporting rationale and evidence to justify its rate design methodology. The utility should also provide evidence supporting its forecast of consumption.

6 Application review and assessment

- 6.1** The Commission has a public interest mandate from the Government of Alberta to regulate water and other utilities to ensure that customers receive safe and reliable service at just and reasonable rates.
- 6.2** To achieve this mandate, the Commission will thoroughly review and assess any water rate application to ensure the rates are just and reasonable. A utility may not change the rate it is charging for service without prior approval from the Commission.
- 6.3** The process steps used to review and assess an application will depend on the issues and complexity of a given water rate application. The process steps for reviewing a water rate application may include:
- (a) Notice of the application and public information session issued by the AUC. This notice may be mailed or emailed to customers or included with a billing run by the utility.
 - (b) Public information session.
 - (c) Initial comments from customers on the application and utility operations.
 - (d) Information requests from the AUC to the utility.
 - (e) Information requests from customers to the utility.
 - (f) Responses to information requests.
 - (g) If needed and granted by the AUC, intervener evidence from customers.
 - (h) Information requests from the AUC and utility to customers who filed intervener evidence.
 - (i) Responses to information requests to customers.
 - (j) Rebuttal evidence from the utility.
 - (k) Final written argument.
 - (l) Final written reply argument.

6.4 Other than the public information session, all steps of the review and assessment process for water rate applications are expected to be conducted in writing. The AUC will typically not hold oral hearings or oral argument for these types of applications.

6.5 Timelines for application review and assessment

The AUC's Rates Division has a number of performance metrics setting out the timelines for reviewing and assessing applications, and issuing decisions on those applications. These timelines depend on the process steps required to review and assess the application. The descriptions of the application categories and the corresponding processing timelines that generally apply to water rate applications are:

Process steps required	Days to complete the written record	Days to issue decision
Notice only – if the application is unopposed by customers and information requests are not needed.	24	69
Information requests only.	75	55
Information requests, argument and reply argument.	108	90
Information requests, intervener evidence, argument and reply argument.	172	90

7 Customer participation

7.1 Any person who is directly and adversely affected has the right to intervene in a rate application. In almost all cases, a customer of a water utility is considered to be directly and adversely affected and will be allowed to participate in the application review process.

7.2 In most cases, AUC staff will schedule a customer information session during which staff will explain the AUC's regulatory process and how customers can participate in that process.

7.3 Customers who register on the proceeding may be provided an opportunity to inform the AUC of their concerns with the application or the utility itself, ask written questions (referred to as information requests or IRs) of the utility, provide evidence to support their issues with the application and provide final argument on the application.

- 7.4** Customers are strongly encouraged to form a customer group to provide submissions on behalf of the customers it represents. Joint submissions representing multiple customers helps to alleviate the burden on individual customers to prepare their own submissions and helps to improve regulatory efficiency and streamline the written record for proceedings. Joint submissions should indicate which customers are part of the group represented by the submission.
- 7.5** Multiple individual submissions highlighting similar concerns will not be given more weight by the Commission than a joint submission. For example, multiple customers signing a form letter adds documents to the process without necessarily increasing the volume of evidence. A group submission signed by all the customers in that group best fulfils the goals of regulatory efficiency.
- 7.6** As noted above in Section 6, the AUC will typically request comments from customers at the beginning of the application review process. A customer input questionnaire will be made available for customers to provide their comments and identify questions they would like asked of the utility.
- 7.7** The AUC will then take those comments into consideration when asking its information requests. If customers still have questions, they may have an opportunity to file their own information requests shortly after the AUC's.
- 7.8** After seeing responses to the information requests, customers may have an opportunity to state their position on the utility's application through written argument.
- 7.9** Customers can request the opportunity to file evidence on the application. Evidence and argument are not the same thing. The initial comments, argument and reply argument give customers the opportunity to express their concerns with and opinions on the application. Intervener evidence is factual information provided by customers, which is used to support their concerns or opinions, or to contradict something proposed by the utility.
- 7.10** When customers file intervener evidence, both the AUC and the utility may ask information requests to the customers, and the utility is typically allowed to file its own factual evidence responding to that of the customers. The evidence filed by the utility in response to intervener evidence is referred to as rebuttal evidence.
- 7.11** The AUC may also appoint a member of its staff to act as a liaison for customers participating in the application review process. This staff member will be the primary point of contact for customers who have questions about the process or who need assistance with filing submissions.

8 Interim rates

- 8.1** The AUC has the option to approve interim rates for a utility, if the utility files an application requesting them.

- 8.2** Interim rates are a temporary rate put in place while the AUC reviews the utility's application for final rates. An interim rate approval would set out the date on which interim rates take effect and the level of those interim rates.
- 8.3** The utility can either request continuation of its existing rates as interim rates (i.e., the interim rates are the same as current rates), or it can request up to half of its proposed final rate change, on an interim basis.
- 8.4** An interim rate application requesting continuation of existing rates, on an interim basis, will typically be approved more quickly and with less process than a request for increased interim rates.
- 8.5** If the utility is requesting interim rates higher than its current rates, it may be required to provide supporting information to demonstrate factually that the interim funding increase is needed to maintain safe and reliable utility service, and it may be required to file additional information about its proposed costs, revenue requirement and rate calculations.
- 8.6** Once the final rates are approved, a true-up occurs in which the utility calculates the difference between what it collected from customers under the interim rates and what it would have collected during the same time if the final rates had been in place. The difference is then either refunded to or collected from customers. The utility must file an application for Commission approval of the calculation of the true-up collection or refund.
- 8.7** Where practicable, interim to final rate true-ups should be calculated for the individual customer. Where not practicable, for example where there is a large number of customers, the true-up may be done on an aggregate basis.

9 Costs for external support

- 9.1** To minimize costs borne by customers, the Commission typically will not approve costs for legal counsel or expert consultants related to application development and the AUC's regulatory process for water rate applications.
- 9.2** If a water utility believes that it should be allowed to include these costs in its rates, the obligation rests with the utility to sufficiently explain why counsel or external consultants were necessary for the utility to prepare its application and navigate the regulatory process. Approval for inclusion of costs for legal counsel or external consultants must be obtained from the Commission in advance of filing of the rate application.