

# Bulletin 2024-17

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## **Implementing the annually updated return on equity**

The Alberta Utilities Commission is committed to reducing regulatory red tape and fostering transparency and certainty in regulatory procedures. In line with this commitment, the Commission is implementing a standardized process for Alberta's electric and gas utilities to incorporate the annually updated return on equity (ROE).

### Calculating the annual return on equity

In [Decision 27084-D02-2023](#), the Commission adopted a formulaic method to calculate a fair rate of return for Alberta's regulated electric and gas utilities. This approach, effective from 2024 onwards, adjusts the approved ROE with financial market and economic conditions on an annual basis, using changes in 30-year Government of Canada bond yields and 30-year A-rated Canadian utility bond yields as benchmark indicators. To implement this annual adjustment, the Commission will commence a generic proceeding in early November of each year to calculate the upcoming year's ROE and provide industry participants with the opportunity to comment on these calculations and address any discrepancies before a final decision is issued. The resultant ROE will apply effective January 1 of the following year to: AltaLink Management Ltd., Apex Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., ENMAX Power Corporation, EPCOR Distribution & Transmission Inc., FortisAlberta Inc., KainaiLink L.P., City of Lethbridge, PiikaniLink L.P., The City of Red Deer, and TransAlta Corporation. The Commission will endeavour to issue its decision early enough in November to allow the approved ROE to subsequently be incorporated into a utility's rates or revenue requirement effective January 1 of the following year.

### Incorporating the annual return on equity in a utility's rates or revenue requirement

While Decision 27084-D02-2023 laid the foundation for the annual ROE adjustments, the Commission recognizes the importance of providing structured and predictable processes by which Alberta electric and gas utilities can incorporate the updated ROE annually on a prospective basis. As a general principle and to minimize regulatory burden, whenever possible, the annual ROE calculated and approved by the Commission each November should be reflected in customer rates or revenue requirement through an ongoing rates proceeding before the Commission.

For example, electric and gas distribution utilities should perform ROE updates as part of their annual performance-based regulation rate adjustment proceedings. While these applications are filed in September, the Commission will permit the distribution utilities to update their applications with the approved ROE in November. Similarly, if an electric or gas transmission

utility has an active rates proceeding before the Commission, it should file an update within that proceeding to reflect the approved ROE value.

In the event there is no active rates proceeding in a given year for a particular utility, that utility can file a set of Excel schedules to update its rates or revenue requirement with the approved ROE within the aforementioned generic proceeding that the Commission initiated in November. A utility should only incorporate a new ROE value and not include any other adjustments unless otherwise directed or approved in advance by the Commission. These schedules should be uploaded to the generic proceeding no later than 15 calendar days after the issuance of the Commission's decision approving the formulaic ROE calculation, unless the year-over-year change in ROE is immaterial, in which case a utility may delay filing an ROE update and shall instead file a letter explaining the basis for its assessment that the change is immaterial and identifying when it intends to reflect the adjustment. For example, if a year-over-year ROE change is particularly small and a utility has already planned to file a rates application early in the following year, it may wish to consolidate its ROE adjustment with that upcoming application. To preserve prospectivity and avoid any potential carrying charges, a utility must ensure the new ROE is updated in the year which it applies (i.e., utilities may not delay for a year or more in reflecting an annual ROE update). The Commission reserves the right to direct a utility to file an outstanding update at any time.

Any questions or comments with respect to the matters considered in this bulletin should be directed to Artyom Jukov at 403-592-4507 or by email at [artyom.jukov@auc.ab.ca](mailto:artyom.jukov@auc.ab.ca).

Alberta Utilities Commission