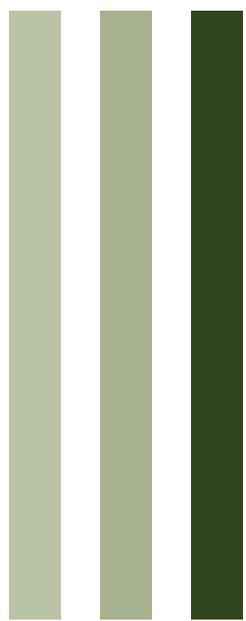




AUC

Alberta Utilities Commission

Alberta's independent utilities regulator



2023-2024

Report

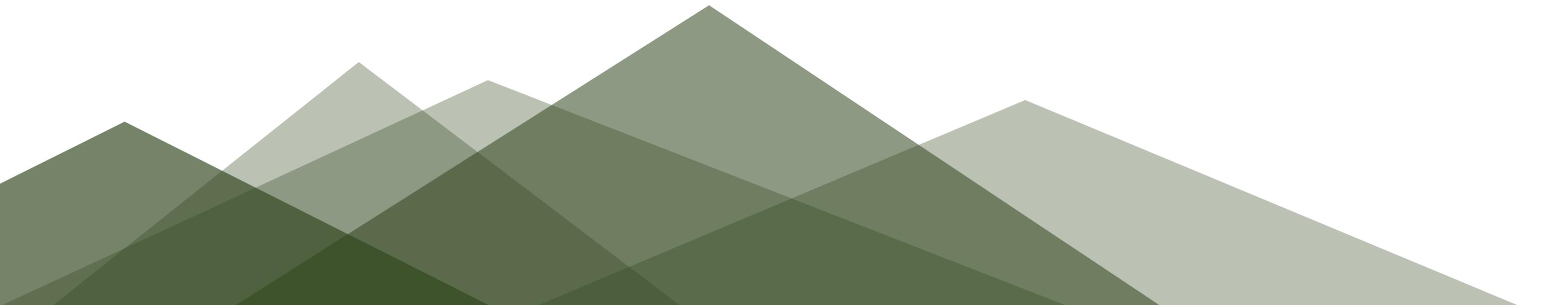
Card





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AUC Chair Carolyn Dahl Rees on the 2023-2024 Report Card

As we reflect on the 2023-2024 year, a major theme that continued over from last fiscal year is change. Alberta's electric and gas systems continue to evolve at a rapid pace, and the AUC's work focused on broad policy issues as directed by the Alberta government, in addition to a heavy workload for facilities and rate hearings. We continue to remain focused on maintaining the significant efficiency gains in our regulatory work, achieved over the past four years, and we are committed to continuous improvement in everything we do.

In August 2023 we were tasked by the Alberta government to hold an inquiry on issues related to the future of electric generation in Alberta. Given the breadth of work and the timelines for delivering these reports, we were pleased to be able to deliver the Module A report to the government on January 31, 2024, ahead of schedule, and the Module B report on March 28, 2024.

The inquiry explored very significant and broad issues related to land use and the future of generation investment in the province.

We commissioned a number of experts to develop reports for both inquiry modules. We also heard from a large range of stakeholders from the general public, municipalities, First Nations, Métis communities, investors and industry associations. We received and reviewed hundreds of written and oral submissions and received thorough and insightful findings from expert reports. We sincerely appreciate the contributions from these experts and from all interested parties.

During the six-month renewables pause period, the AUC continued processing all facility applications in a fair, timely and orderly way. Concurrent with the inquiry, the AUC issued a report analyzing Alberta's electricity distribution system in the context of achieving net-zero goals. As a proactive regulator, we felt it was important to understand potential cost impacts of net-zero on distribution, and to facilitate the directions reflected by the Alberta government in Bill 22, the *Electricity Statutes (Modernizing Alberta's Electricity Grid) Amendment Act, 2022*.

The Net-Zero Analysis of Alberta's Electricity Distribution System report found that

with appropriate optimization efforts the implementation of net-zero goals can be more affordable for Alberta's electricity distribution system. The net-zero report study is the most extensive integrated analysis to date conducted on incremental distribution costs in Alberta, related to the costs of achieving net-zero. More comprehensive and better focused data in the future from the distribution utilities will allow even better management and optimization of costs during the energy transition.

It was another hearing-heavy year. The AUC issued its third-generation performance-based regulation (PBR) decision and a key generic cost of capital decision; both processed and issued in early October 2023.

The AUC has a responsibility to ensure that customers receive safe and reliable electric and gas utility service at just and reasonable rates. The AUC's new PBR decision encourages Alberta's distribution utilities to be more efficient and requires them to share those gains with their customers. PBR uses a formulaic approach to limit distributors' allowable revenue increases reflected in rates, by requiring the distribution companies to meet efficiency requirements.

In the generic cost of capital decision, the AUC adopted a formula-based approach to set the rate of return on equity, or ROE, for Alberta's regulated electric and natural gas utilities in 2024 and beyond. This formula-based approach is a significant step for GCOC proceedings and further promotes a more efficient, predictable and cost-effective regulatory process that ultimately benefits ratepayers, utilities and the broader public interest in Alberta. This applies to all regulated electric and natural gas utilities, and will reduce regulatory lag

"We continue to remain focused on maintaining the significant efficiency gains in our regulatory work, achieved over the past four years, and we are committed to continuous improvement in everything we do."

and burden, enhance transparency and deliver regulatory certainty.

Another notable achievement accomplished this fiscal year was the AUC being named the winner of the 2023 Innovation and Leadership Award for red tape reduction and regulatory streamlining, from Canada's Energy and Utility Regulators (CAMPUR). This award recognizes significant and innovative contributions for improvements in energy and public utility regulation in Canada. The award program contributes to CAMPUR's vision of regulatory excellence in Canada, by sharing and learning from each tribunal's successes.

Since 2019 the AUC has achieved a 48.2 per cent reduction in red tape. The regulatory requirements set out in the AUC rules are approximately half of what they were. The AUC has saved a cumulative 31,629 days of regulatory process time against benchmarks and saved nearly \$12 million for industry and ratepayers. Millions of dollars more in reduced costs have been passed on through reduced or refunded administration fees.

Affordability is still top of mind to the AUC. Many things affect the increasing costs in our daily lives. In a time of added fiscal pressure, we at the AUC have remained focused on the fundamental regulatory objective of safe and reliable utility services delivered to consumers at just and reasonable rates.

Carolyn Dahl Rees

AUC Chair

The Commission

The Alberta government, through orders-in-council, appoints members of the Commission

Acting Commission members (not pictured)

Dennis Frehlich
Vincent Kostas
Doug Hawkins
John McCarthy



Carolyn Dahl Rees
Chair



Krist Sebalj
Vice-Chair



Renée Marx
Commission member



Matthew Oliver
Commission member



Doug Larder
Vice-Chair



Michael Arthur
Commission member



Cairns Price
Commission member



Vera Slawinski
Commission member



Chief Executive Bob Heggie on the AUC Report Card

The past year has been one of the most significant periods of change since Alberta introduced electricity sector reform in the 1990s.

The energy landscape is changing in different and profound ways. Legislation and government policy are changing. The allocation of roles and responsibilities of agencies are being realigned. And the law is evolving.

The most immediate challenge is the need for substantial investment in our electricity system. This imperative stems from several factors, most notably being the transition to more renewable energy sources, the need to connect these sources to the transmission and distribution systems and the need to modernize our electricity system to keep pace with technological advances.

The AUC-commissioned Net-Zero Analysis of Alberta's Electricity Distribution System report, together with the AESO's Net-Zero Emissions Pathways report, estimates the required capital investments in the transmission and distribution systems at approximately \$53 billion.

This scale of investment calls for a heightened focus on the practice of regulation and the total cost to consumers. The Commission has an important role to play in mitigating impacts on customer bills,

while ensuring the maintenance of a reliable and sustainable electricity system.

Our challenge is to achieve the balance among objectives and relevant interests in manner that respects our mandate. In effect, our legacy obligations remain unchanged while new policy developments add new layers. The challenge is to integrate these new components into a coherent whole.

The Commission has accepted these new challenges while maintaining its focus on ongoing regulatory matters. This core work includes the important responsibility of examining the prudence of costs and the reasonableness of rates while also enabling the required investment in the sector to maintain reliability.

In the past year the Commission processed 790 applications and issued 617 decisions. In carrying out that work, the Commission remains committed to improving its processes in a consistent and fair manner. I echo Carolyn's emphasis in this report on the strides we have made in managing our regulatory processes and our continued evaluation of options for improvement. These options include an increased reliance on technology adopted during the COVID-19 pandemic, as well as a continued interest and support for settlements as a

cost-effective way to resolve entire, or parts of, applications.

To address the complexity of emerging issues, we have taken an adaptive approach in looking ahead and not waiting for applications to come before us before evaluating an issue. For example, we established an internal Rate Design Committee to evaluate the potential for new time-of-use rate designs identified in our net-zero work. These rates could result in time differentiated pricing that have the potential to impact supply mix, investment timing and costs because of load shifting.

As we work through this transformational period, we are cognisant that how we regulate in the future is often shaped by court rulings. Due to the energy transition, there are concerns being expressed in both the electricity and gas sectors about the risk of regulatory assets being stranded if, for example, natural gas consumers choose alternative fuels for their needs. This year saw another decision in the line of cases addressing the Commission's jurisdiction to address utility assets no longer required for service.

In this latest decision, the Court of Appeal distinguished between the regulatory treatment of utility assets destroyed by natural disaster (wildfire) and utility assets disposed of by sale. The Court confirmed that the Commission's overriding consideration when considering the treatment of assets destroyed by wildfire was ensuring just and reasonable rates having regard for the utility's right to a reasonable opportunity to recover prudent costs. This direction from the Court is helpful and will inform subsequent decisions on asset dispositions.

As all of this activity is occurring, the Commission endeavored to ensure that its regulatory framework, including its codes and policies and practices are updated and aligned with this new paradigm. This included firming up our Compliance and Enforcement

Division's institutional structure to ensure the required independence from the Commission's adjudicative responsibilities.

During the course of this work, the Commission undertook considerable outreach through virtual and live sessions in order to seek input on potential changes and keep all stakeholders informed.

"The Commission has an important role to play in mitigating impacts on customer bills, while ensuring the maintenance of a reliable and sustainable electricity system."

The Commission's website is an increasingly vital tool in communicating important initiatives. It received 302,003 visits this past fiscal year (an increase of

27 per cent from fiscal 2022-2023). We have designed our web presence to ensure consumers and industry participants alike have ready access to timely information about our work to answer questions about billing, customer service and other issues. Our team is constantly looking for new ways to engage consumers on the energy issues that affect their daily lives.

This year also allowed further opportunities to build relationships with and learn from Indigenous communities. In March, our team visited the Blackfoot Crossing Historical Park where Treaty 7 was signed by Chief Crowfoot.

The Commission greatly values the opinions of our stakeholders, whether they are providing input into an issue facing the sector or simply telling us how we're doing.

In conclusion, I want to thank our entire team on another year of hard work and significant achievement. Their efforts continue to be an outstanding example of public service.

Bob Heggie
Chief Executive



Our executive team

From left to right:

Darek Kogut
Executive Director of Corporate Services

Fino Tiberi
Executive Director of Compliance and Enforcement

JP Mousseau
General Counsel

Kristjana Kellgren
Executive Director of Rates

Kim Macnab
Executive Director of Facilities

Riley Georgsen
Executive Director of External Affairs and Communications

Efficiency and limiting regulatory burden

 **The challenge:**
The AUC must continue to review its activities to reduce or remove regulatory requirements that have become burdensome. How can the AUC ensure its regulatory processes are clear, timely and appropriate, so as not to impose unnecessary regulatory burden, while ensuring the public interest is protected?



“Efficient, effective and proportionate regulation is an ongoing commitment of the AUC. It is not a static goal or a check in the box – it is about continually challenging ourselves, our colleagues and our stakeholders (and being challenged in turn) to improve.

We acknowledge and thank our stakeholders – your participation in and commitment to our modified processes and your willingness to work together to settle or resolve matters outside the hearing room has allowed for greater prospectivity in rates and lower costs for consumers.”

- Kristjana Kellgren, Executive Director of Rates

Objective	Outcome	2023-2024 Results
1. Continuing to implement the recommendations from the Report of the AUC Procedures and Processes Review Committee to improve the regulatory efficiency of rate proceedings. For example, explore greater use of existing and new alternative dispute resolution approaches, including advanced rulings, mediated settlements, and consideration of revisions required to AUC rates-related rules.	Material, measurable improvement in regulatory effectiveness and efficiency.	1. The average time taken to process a rates filing in 2023-2024 was 31 days, down from an average of 47 days between 2018 and 2022. Since 2020, the average time taken to process a large rate application improved dramatically from an average of 15 months in prior years (2015-2019) to an average of eight months (2020-2023).
2. Developing new, more aggressive performance standards and processes for rate-related applications to reduce full-cycle timelines and align with the Commission's objective to be a North American benchmark for operational and regulatory efficiency and effectiveness.		2. The Commission continues to explore how to encourage and support negotiated settlements between utilities and customer representatives. Settlements can reduce the time and resources involved in the regulatory process, which can save customers money and result in outcomes that both the utility and its customers support. In 2023-24, the Commission approved six rate-related negotiated settlement agreements, in addition to several settlements between the AUC's Enforcement staff and entities that were the subject of an enforcement action. The number of successful negotiated settlement agreements between utilities and customer representatives regarding rate-related matters in 2023-24 was more than three times the amount of settlements approved by the Commission in a year, on average, since 2013.
3. Conducting an annual industry impact assessment, as part of the AUC Annual Report Card, to evaluate the cost benefits and effectiveness of our processes, and to track continuous improvement through future business cycles.		3. The AUC saved an estimated \$2 million through red tape reduction-related process improvements.
4. Enhance and standardize the process, protocols and procedures for running effective and efficient virtual proceedings.		4. The AUC continues to see success and efficiencies by utilizing virtual and hybrid proceedings and has standardized the procedures for running them.
5. Review and revise Rule 009: <i>Rules on Local Intervener Costs</i> and Rule 022: <i>Rules on Costs in Utility Rate Proceedings</i> to promote consistent and effective participation in AUC proceedings and provide clarity to participants.		Effectively use the Commission's cost authority to improve participation and encourage efficient, issue focused proceedings.

Facilitating change in the sector



The challenge:

The energy sector is transitioning and facing ever more complex issues that concern an extended group of stakeholders. As the regulatory body responsible for regulating the natural gas and electricity sectors, what is the AUC's role in helping to understand the alternatives and implications of the inherent challenges the transition presents?



"We're in a period of significant transformation, in technology, policy and regulatory processes. The AUC is committed to continuous improvement in its regulatory practices as we adapt to the changing sector."

- Kim Macnab, Executive Director of Facilities

Objective	Outcome	2023-2024 Results
1. Assessing the experience with performance-based regulation in Alberta to date, to determine if performance-based regulation should be continued and if so, whether the design can be improved to ensure efficient outcomes.	Understanding of the successes and limitations of the experience with performance-based regulation to date, determining whether to proceed with a further PBR framework and improving any future PBR framework.	The AUC approved new PBR plans for regulated electric and natural gas distribution utilities on October 4, 2023, in Decision 27388-D01-2023. These plans will be used to set distribution rates for 2024 to 2028 and are intended to incentivize utilities to continue to improve productivity while ensuring customers share in the benefits.
2. Collaborating with the Alberta Electric System Operator (AESO), the Department of Energy and the Market Surveillance Administrator on a robust regulatory framework for electrical energy storage in Alberta.	Clear and comprehensive requirements that create certainty and consistency for market participants and promote efficient market outcomes.	The provisions of the <i>Electricity Statutes (Modernizing Alberta's Electricity Grid) Amendment Act</i> (formerly Bill 22) were proclaimed in force on March 6, 2024. Amongst other things, these amendments promote the integration of new technologies such as energy storage facilities and permit the practice of electricity self-supply and export. Related amendments to the <i>Hydro and Electric Regulation</i> came into force on the same day. Consequential updates to Rule 007 to provide clarity on application requirements for electric energy storage in Alberta were made on March 28, 2024.
3. Standardize (i) connection practices and processes among Alberta electric distribution utilities to ensure there are no barriers to entry for distributed energy resources and (ii) terms and conditions of service required by Alberta's distribution utilities to ensure customers receive consistent treatment.		
4. Evaluating the development of uniform distribution planning and reliability requirements to better coordinate distribution and transmission planning and ensure overall system optimization and control costs.		
5. Establishing an interdisciplinary, cross-divisional team to provide information in AESO stakeholder consultations regarding the tariff for system access service and anticipate market implications.	The AESO tariff creates efficient incentives for transmission connected customers, including improved price signals for the incremental costs and benefits their use creates.	AUC staff continue to participate in AESO-led consultations and engagement to ensure they are informed and well-positioned to support the Commission members and their adjudication of forthcoming AESO tariff- and rule-related applications. A rate design committee has been formed to make recommendations to the Commission as to potential process changes, substantive evidence needed in future proceedings, or rule changes.

People

 **The challenge:**

The AUC will play a central role as competitive forces and technological advancements continue to reshape the utilities sector. The AUC's most important challenge will be to develop, attract and retain a diverse group of people with the skills, experience and education required to meet these demands, and to evolve more innovative and adaptive work approaches. But how?



“The AUC is a team of savvy experts, driven by a common purpose: to lead with trust and deliver innovative, efficient regulatory solutions for Alberta.

The work of our team is notable, and we take pride in what we do every day. By nurturing a diverse group of future leaders, modernizing our workforce and workplace, and enhancing our employee value proposition, the AUC has become a top employer for talented people in Alberta.

Our success is a direct outcome of our dedicated people and their strong work ethic.”

- Darek Kogut, Executive Director of Corporate Services

Objective	Outcome	2023-2024 Results
1. Modernizing the AUC's workforce by developing a human capital road map to transform the skillset required to keep pace with an evolving utilities sector.	Modernized employee competency and educational plans.	The AUC further strengthened partnerships with universities and local agencies, expanding its student program aimed at attracting future talent with emerging skillsets relevant to an evolving utilities sector. With an enhanced focus on retention and recruitment strategy, and continuous education, the AUC is experiencing lower turnover and creating career growth opportunities for its employees.
2. Encouraging, tracking, recognizing and rewarding staff innovation.	A more agile and innovative regulator striving for continuous improvement in the way we do our work.	Continuous improvement in how we work remains a strategic priority for the AUC. From staff-led initiatives to continued efficiency initiatives the AUC has become a more agile and innovative regulator. How the AUC has moved towards innovation is embedded in our DNA.
3. Formalizing and evolving our succession and leadership development plan.	Identification and development of a diverse group of future leaders that possess the required technical and leadership skills to succeed the current leadership team.	This past year the AUC launched its second cohort of emerging leaders to develop future leaders for career progression, whether technical or leadership. The program's goal is to develop a roster of savvy and recognized industry technical experts with established leadership skills. The AUC's human resources group introduced a leaders' learning series focused on strengthening technical and leadership skills for current and future leaders.
4. Evolving the AUC value proposition for staff, which includes fair compensation, benefits, pension and the ability to achieve work-life balance and other human resources programs.	Modern and flexible human resource programs and benefits.	At the AUC, we take a holistic approach to work and life effectiveness since a great life incorporates a great career. Our employee value proposition continuously evolves with a key focus this past year on enhancing work-life balance and flexible work arrangements and expanding our commitment to professional development and career progression. Through the modernization of human resource policies and programs, the AUC has created an even more diverse and inclusive workplace, positioning the AUC for continued success.
5. Modernizing our workplace, allowing for increased collaboration and implementation of efficient approaches to our work.	A more collaborative and efficient organization.	The AUC has made significant strides in modernizing our workplace, from implementing collaboration tools for employees operating in a hybrid environment, to expanding hearing and meeting room space to accommodate remote hearings and meetings. This past year, the AUC introduced an artificial intelligence and machine learning (AI/ML) program aimed to lay the foundation for implementing AI/ML across the organization. This program encompasses education, AI/ML Centre establishment, and cross-business participation. By providing training, creating an AI/ML Centre, and fostering collaboration, the program aims to ensure the ethical development and deployment of AI/ML systems and maximize the benefits for the organization.

2023-2024 performance metrics & stats

617 
Decisions issued

87 
Written proceedings

789 
Applications received

180 
Notices issued

127 
Checklist applications received

65 
Hearing days

\$9.38 
Annual cost per regulated ratepayer site annually

5 
AUC rule revisions

3,561 
Total annual interactions with Albertans

100% 
Efficiency initiatives completed or ongoing

29% 
Decrease in cost per ratepayer since 2008

\$600 
Thousand net surplus

10 
Settlement proceedings

17 
Enforcement decisions issued

12 
Specified penalties issued

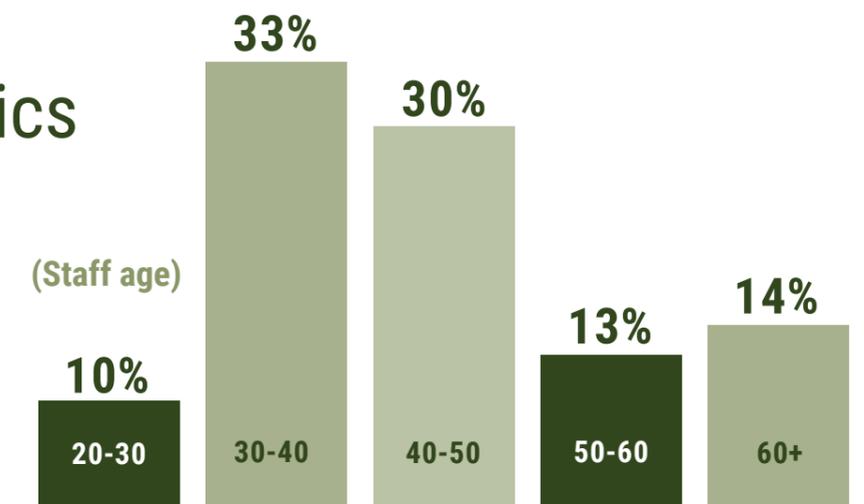
22 
Announcements and bulletins

23 
Complaint resolutions issued

Staff demographics

135
AUC employees

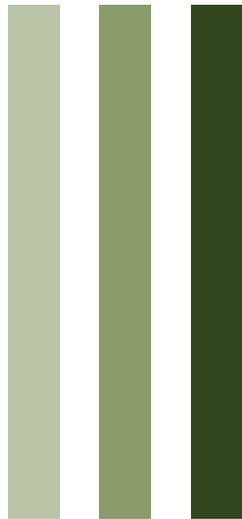
(includes students, casual, part-time and full-time employees)





AUC

Alberta Utilities Commission



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