

***An Act to Secure
Alberta's Electricity Future***

Technical Information Session

April 2018



Please note information provided in this presentation is intended for guidance purposes only. The most current details for *Bill 13, An Act to Secure Alberta's Electricity Future* are available on the Legislative Assembly of Alberta website at:

<https://www.assembly.ab.ca/net/index.aspx?p=bill§ion=doc&legl=29&session=4>

Session Outline

1. Policy Overview
2. Legislative Amendments
3. Overview legislative amendments
 - Bill 13: *An Act to Secure Alberta's Electricity Future*
 - Capacity Market
 - Utilities Asset Disposition
 - Specified Penalties
 - Small-scale and Community Generation
 - Transmission Deficiency Regulation
4. Questions & Answers
5. Closing Remarks

Policy Overview

***An Act to Secure Alberta's Electricity Future* will lay the groundwork for a more modern, stable and reliable electricity system by:**

- **introducing legislation to create a capacity market;**
- **increasing investor confidence by providing policy and regulatory certainty;**
- **protecting consumers from breaches of service quality and compliance standards; and**
- **enabling more options for Albertans to generate their own electricity from renewable or alternative sources.**

Legislative Amendments

Bill 13: *An Act to Secure Alberta's Electricity Future* amends five acts:

- *Alberta Utilities Commission Act (AUCA)*
- *Electric Utilities Act (EUA)*
- *Hydro and Electric Energy Act (HEEA)*
- *Renewable Electricity Act (REA)*
- *Gas Utilities Act (GUA)*

Notes on amendments:

- Legislative amendments are referenced in this presentation by the bill page number, bill row, affected act, act section, and subsection
- Amendments to actual acts will occur as the relevant act sections come into force

Capacity Market Framework Legislative Amendments

Affects four acts:

- *Alberta Utilities Commission Act (AUCA)*
- *Electric Utilities Act (EUA)*
- *Hydro and Electric Energy Act (HEEA)*
- *Renewable Electricity Act (REA)*

Covers five themes:

1. Establish and enable the capacity market
2. Clarify duties and responsibilities
3. Revise the existing rules process
4. Enable a provisional rules process
5. Enhance stakeholder involvement

Establish & Enable the Capacity Market

Bill Amendments:

AUCA Section 31

EUA Sections 1, 5, 19, 24, 41

REA Section 17

Establish and enable the capacity market

- **Enshrine three core principles of the capacity market in the *EUA*** P. 14, row 4, *EUA* (5)(c.1)
 - A reliable supply of capacity at reasonable cost
 - Fair, efficient, and openly competitive operation
 - Fair distribution of capacity costs among consumers in a manner that provides incentives for economic efficiency
- **Amend Act definitions and terms**
P. 4, row 3, *AUCA* 31(1); P. 11, row 2, *EUA* (1)(1); P. 44, row 41, *REA* (17)
P. 16, row 10, *EUA* (19)(1); P. 34, row 29, *EUA* (41.41)
 - New definitions for capacity auction, capacity market participant, obligation period, and resource adequacy standard, among others
 - Existing definitions in the *AUCA* and *REA* have been aligned with capacity market terms

Establish and enable the capacity market

- **The AESO may make rules to establish and operate the capacity market, including but not limited to:** P. 34, row 29, *EUA* (41.42)(1)
 - Eligibility criteria for capacity auctions
 - Key design elements of the capacity market
 - Rights and obligations of capacity market participants
- **The Minister of Energy may make regulations related to the capacity market, including** P. 37, row 29, *EUA* (41.46)
 - Establishing the resource adequacy standard
 - Providing direction regarding the cost allocation method
 - Principles and criteria for the AUC to consider when approving the recovery of capacity costs
 - Reporting by the AESO regarding capacity market costs

Duties and Responsibilities

Bill Amendments:

AUCA Section 39

EUA Sections 6, 15, 16, 17, 24, 30, 32 118

HEEA Section 3

Duties and responsibilities

- **The AESO must carry out its duties in the capacity market in a manner that supports:**

P. 15, row 7, *EUA* (16)(1.1)

- Fair, efficient, and open competition
- Reliability at reasonable cost to consumers

- **AESO's duties now include the operation and management of the capacity market, including:**

P. 16, row 8, *EUA* (17)(1.01)

- Establish and operate the market in a fair and open manner
- Procure enough capacity to meet the established resource adequacy standard
- Carry out financial settlement for the capacity market
- Manage and recover the costs of the capacity market

Duties and responsibilities

- **Enable the AESO to recover costs from the capacity market** P. 31, row 22, *EUA (30)(2)*
 - Cost of procuring capacity will be recovered through the Independent System Operator (ISO) tariff
 - Enable the ISO Tariff to be used to recover costs arising from the capacity market, in accordance with regulations
- **Require the AESO to make payments for capacity delivery** P. 32, row 23, *EUA (32)*, P. 37, row 29, *EUA (41.45)(1)*
 - In accordance with relevant market rules and regulations
 - The AESO must include its costs for capacity payments in the ISO tariff submitted to the AUC

Duties and responsibilities

- **The AUC must make rules requiring the ISO to consult with market participants, other interested parties, and the Market Surveillance Administrator in developing ISO rules** P. 27, row 18, *EUA* (20.9)
- **The AUC, in considering whether to approve a generating unit, must not consider the unit's obligations in the capacity market** P. 46, row 2 *HEEA* (3)(c.2)
 - A similar provision was placed in 2017 to ensure a proposed unit's commitments under the Renewable Electricity Act was not grounds for consideration

Duties and responsibilities

- **The Market Surveillance Administrator is enabled to undertake surveillance on the capacity market** P. 5, row 5, *AUCA* (39)
 - The MSA may establish guidelines to support the fair, efficient, and openly competitive operation of the capacity market
- **Capacity market participants are expected to behave in a manner that supports fair, efficient, and open competition of the capacity market** P. 14, row 5, *EUA* (6)

Revisions to the Existing Rule Process

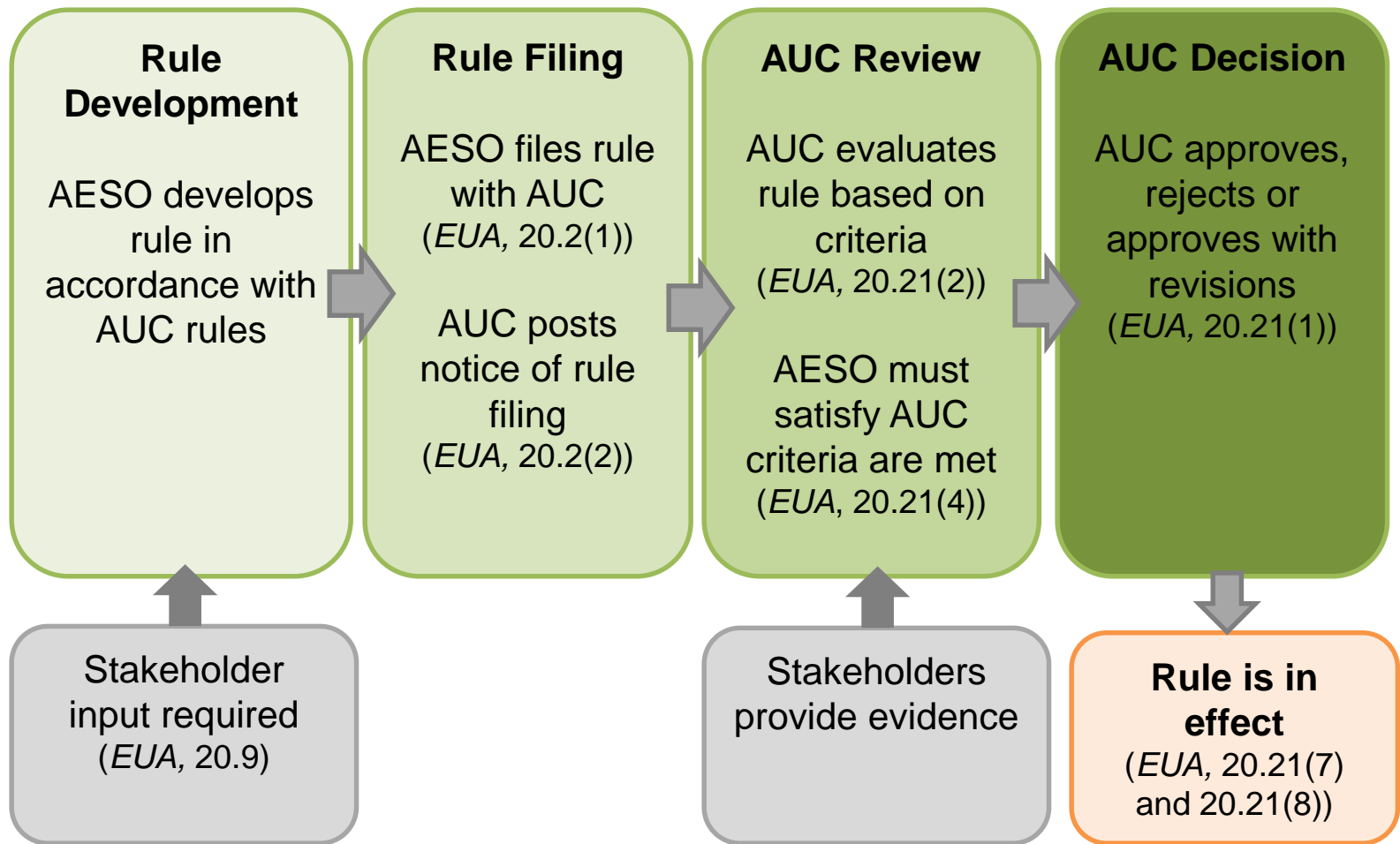
Bill Amendments:

EUA Sections 20, 20.21, 20.2, 20.6, 41.42

Revised rule process

- **AUC approval is now required for all new or modified ISO rules** P. 17, row 11, *EUA* (20)(1.1)
- **Existing rules will be grandfathered into the new rule process** P. 44, row 40, *Bill 13*
- **Upon filing, the AESO may specify that an ISO rule is in effect for a fixed term of up to 5 years** P. 36, row 29, *EUA* (41.42)(4)
 - Applies to rules created under *EUA* section 41.42, which will establish and enable the capacity market
 - Intended for rules which are expected to undergo regular review or are needed on a temporary basis

Revised rule process



- Stakeholders no longer need to file an objection to initiate a review of a rule

Revised rule process

- **Criteria for AUC approval:**

P. 18, row 14, *EUA* (20.21)(2)

- The rule is not technically deficient
- The rule supports the fair, efficient, and openly competitive operation of the market to which it relates
- The rule is in the public interest
- The AESO complied with the AUC's rules in developing the rule

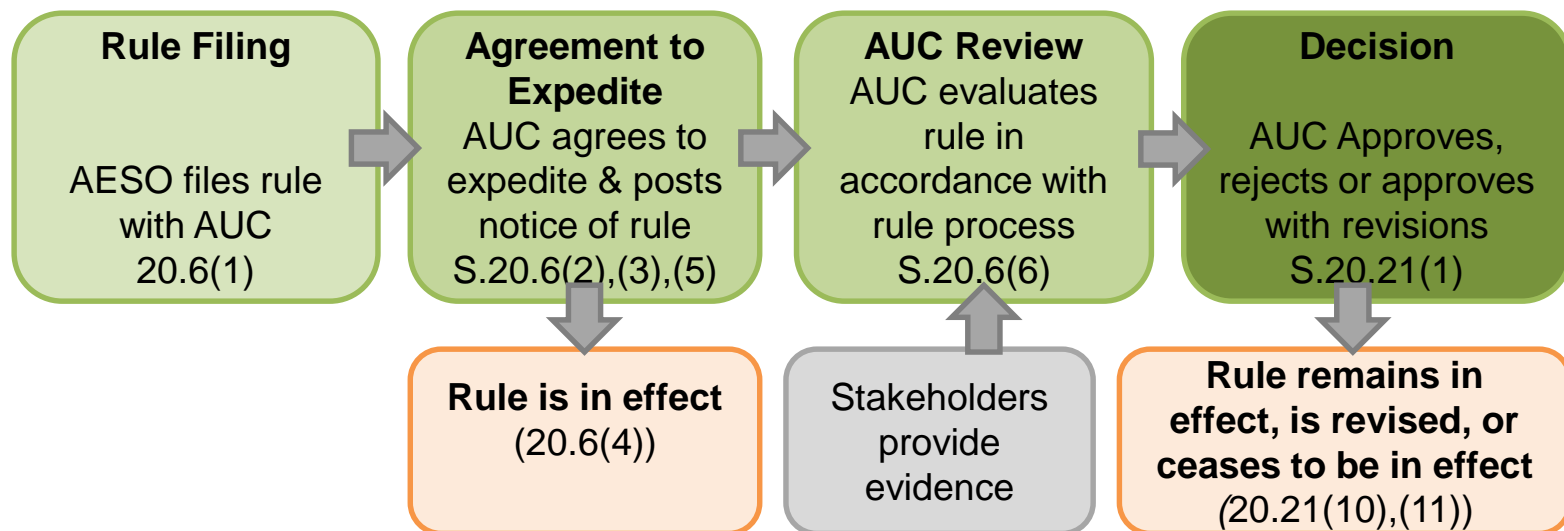
- **If the rule relates to the capacity market, the AESO must also demonstrate that the rule:**

- Supports ensuring a reliable supply of electricity is available at reasonable cost to customers
- Does not conflict with and is not inconsistent with capacity market regulations

- **The legislation will require the AESO to satisfy the AUC that approval criteria are met** P. 18, row 14, *EUA* (20.21)(4)

Expedited rule process

- **The expedited rules process remains available with minor changes** P. 25, row 16, *EUA* (20.6)
 - The AUC must now agree that a rule needs to be expedited before it can come into effect
 - Agreement must come within 5 business days of filing
 - The AUC must then begin to review the rule in accordance with the revised rule process
 - Expedited filing is not available for a first rule relating to the capacity market made under *EUA* 41.42(3)

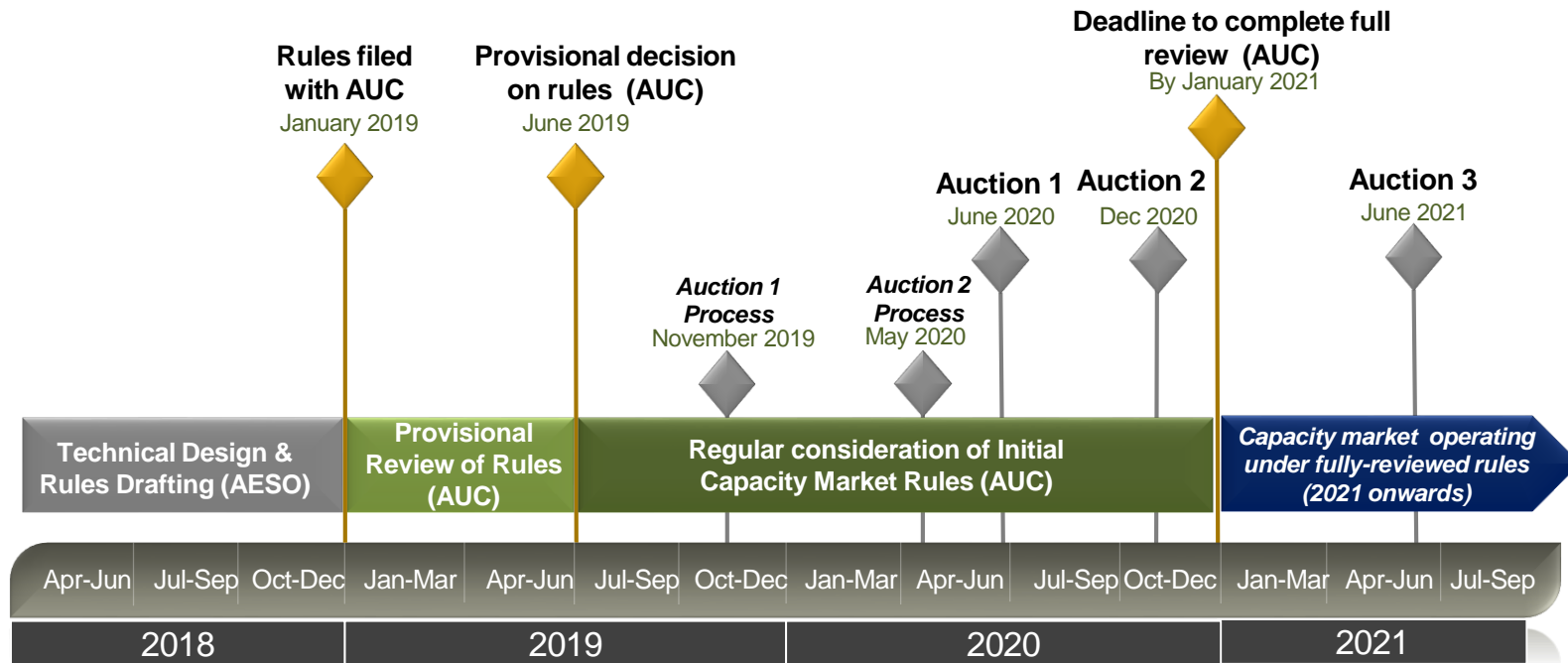


Provisional review of initial capacity market rules

Bill Amendments:

EUA Sections 20.22, 20.23

Planned timeline – provisional rules process



- 24 months total for AUC to review and approve initial rules
 - Includes 6 months for provisional review and 18 more months for full review

Provisional rules process

- **As soon as practicable, the AESO must make the first set of rules that the AESO considers are essential:** P. 36, row 29, *EUA* (41.42)(3)
 - To establish the capacity market, and
 - For the operation of the capacity market
- **Once the rules are filed, the AUC shall make an order setting out which rules it will consider for provisional approval**
P. 20, row 14, *EUA* (20.22)(2)
 - An AUC decision under this subsection may not be appealed under section 29 of the AUCA

Provisional rules process

- **If the AUC decides to consider a rule for provisional approval, it may:** P. 21, row 14, EUA (20.22)(4)
 - Provisionally approve the rule
 - Direct the AESO to revise the rule or a portion of the rule and provisionally approve the rule subject to the revisions, or
 - Direct that the ISO rule will be considered under EUA section 20.21, if, in the AUC's opinion, the rule is not essential for the establishment or operation of the capacity market.
- **The AUC must issue an order regarding the above decision within 6 months after the date on which the rule was filed** P. 21, row 14, EUA (20.22)(4)

Provisional rules process

- **Provisional decision criteria** P. 21, row 14, *EUA* (20.22)(5)
 - In making its provisional decision, AUC must consider whether the rule ***appears to meet*** the following criteria:
 - is not technically deficient,
 - supports the fair, efficient and openly competitive operation of the capacity market,
 - is in the public interest,
 - supports ensuring a reliable supply of electricity is available at reasonable cost to customers, and
 - does not conflict with and is not inconsistent with capacity market regulations
 - that the Independent System Operator, in developing the rule, complied with the Commission rules made under section 20.9.
- **No appeals or complaints may be made on an AUC provisional decision** P. 22, row 14, *EUA* (20.22)(8)(9)

Provisional rules process

- **After the provisional decision, the AUC will initiate regular consideration of the rules**
 - Regular consideration allows more time for hearings, stakeholder input, and requires that the AUC now be ***satisfied*** that the rule meets all of the criteria
 - The AUC must issue a final decision within 24 months from the date of the initial rule filing
- **Appeals and complaints will be accepted on AUC decisions made under regular consideration of the rules**

P. 22, row 14, *EUA* (20.23)

P. 23, row 14, *EUA* (20.23)(3)

Stakeholder Involvement

*Bill Amendments:
EUA Sections 20, 25, 26*

Stakeholder involvement

- **Two key changes enhance stakeholder involvement in rule development**

P. 27, row 18, *EUA* (20.9)(a); P. 26, row 17, *EUA* (20.81)

1. Consultation with market participants, other interested parties, and the Market Surveillance Administrator is now required in developing ISO rules (*EUA* 20.9)
 - The AUC will be tasked with updating its rules to formalize and guide this requirement
2. The AESO is required to establish a process for market participants and other interested parties to propose changes to ISO rules (*EUA* 20.81)
 - Regulations may provide further guidance to the AESO about what should be included in the process

Stakeholder involvement

- **The AUC may develop rules directing the development and filing of ISO rules, including**

P. 27, row 18, *EUA* (20.9)(b)

- Establishing the types of information that AESO must provide to the AUC when filing rules

- **Regulation-making authority is provided to the Minister to provide further guidance:**

P. 33/34, row 28, *EUA* (41)(1)

- Determining or governing who is an interested party for the purposes of the process outlined in 20.81 and for the purposes of Commission rules outlined in 20.9

Stakeholder involvement

- **Grounds for complaint updated** P. 27/28, row 20, *EUA* (25)(1) and (25)(1.1)
 - Ensures that complaints on rules can be made based on the new approval requirements
- **Additional requirements on complaints for rules with fixed terms** P. 28, row 20, *EUA* (25)(c)
 - Market participants have the onus of proving that there is an urgent concern which justifies opening the rule for review prior to its scheduled expiry
- **Rule making power enables the AUC to make rules respecting the complaint process**
P. 29, row 20, *EUA* (25)(1.12)

Next Steps

- **Regulations are targeted by the end of 2018**
- **We will keep stakeholders updated as work progresses**
- **Technical design work led by AESO is ongoing:**
 - Comprehensive Market Design (CMD) Draft #2 is scheduled to be published April 24.

Utility Asset Disposition

Amendments: AUCA Section 17.1

Utility Asset Disposition

- **Government is making legislative amendments to the *Alberta Utilities Commission Act* to grant the AUC authority to make utility asset disposition decisions in the public interest and on a case-by-case basis.**

P.1, row 2, *AUCA* (17.1)

- Utility asset disposition broadly refers to situations where a regulated utility asset is sold, destroyed, or is no longer used to provide utility service.
- The policy deals with who pays for losses and who gets profits associated with an asset disposition.
- The legislative amendments will apply to electric and natural gas utilities over which the AUC has jurisdiction to approve rates.

Utility Asset Disposition

- **Examples of utility asset dispositions:**
 - A utility sells land that is no longer needed to provide utility service. The land has appreciated in value and is sold at a profit.
 - A natural disaster destroys an asset but the cost of the asset has not been fully recovered by the utility through customer rates.
 - Technological innovation makes an asset obsolete but the cost of the asset has not been fully recovered by the utility through customer rates.
- **A decision is required in each case about how financial gains or losses should be allocated between customers and utility shareholders.**

Utility Asset Disposition

- **Under Section 17.1 of the AUCA, the AUC will have the authority to:**
 - Allocate among customers and utility shareholders the costs and benefits arising from an asset disposition.
P.2, row 2, AUCA (17.1)(2)
 - Determine if a property of a utility should be removed from rate base because it is no longer used or required to be used to provide service to the public.
P.2, row 2, AUCA (17.1)(3)
 - Request information regarding utility asset dispositions.
P.3, row 2, AUCA (17.1)(6)
 - Make rules respecting the considerations taken into account when making an allocation of costs and benefits and reporting requirements for utilities related to asset dispositions. *P.3, row 2, AUCA (17.1)(7)*

Utility Asset Disposition

- **The new section of the Alberta Utilities Commission Act applies to:** P.3-4, row 2, AUCA (17.1)(9)
 - Asset dispositions that have been filed with the AUC:
 - Before first reading of *An Act to Secure Alberta's Electricity Future*, but on which no decision has been issued by that date; and
 - On or after the Bill to enact *An Act to Secure Alberta's Electricity Future* received first reading.

Specified Penalties

Amendments:

AUCA Sections 63.1, 67(1), 67.1

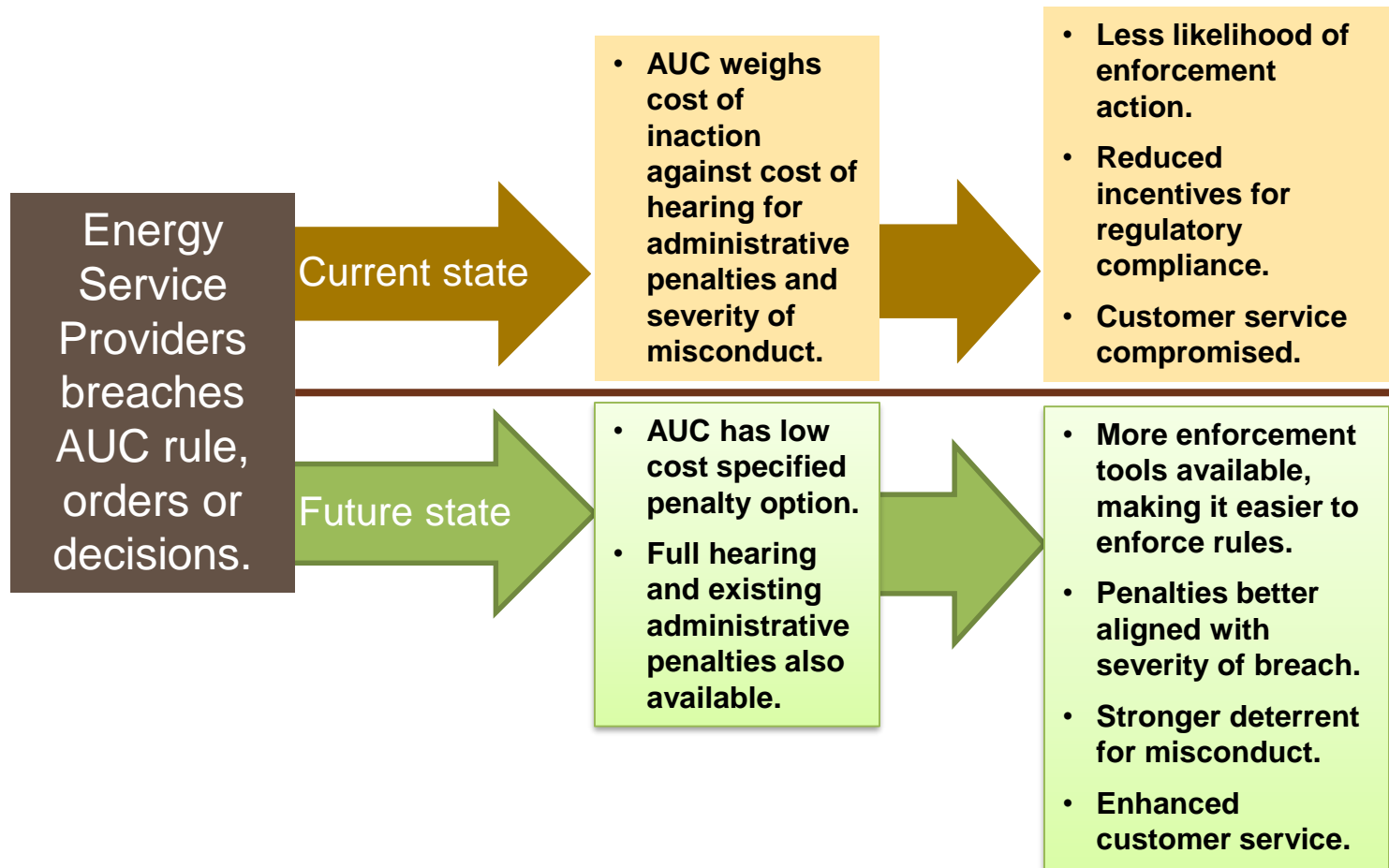
EUA Sections 105, 111, 129

GUA Sections 28.3

Specified Penalties Background

- **Legislative amendments to grant the AUC the authority to issue specified penalties**
 - to electric and natural gas service providers that breach AUC rules, orders, and decisions – including customer service quality standards
- **Recent issues with billing accuracy highlights the need for more efficient enforcement of utility customer service quality standards in Alberta**

Policy Shift



Legislative Amendments

- **The AUC**

- may issue a specified penalty if any electric and natural gas service provider breaches AUC rules, orders and decisions P.9, row 11, *AUCA* (63.1)(1)
- may allocate the proceeds of a specified penalty back to affected customers P.10, row 11, *AUCA* (63.1)(5)
- shall hold a hearing when the person fails to pay a specified penalty or disputes the notice of specified penalty P.9-10, row 11, *AUCA* (63.1)(2)

Legislative Amendments

- **The AUC (continued)**
 - may make rules prescribing form and content of notices of specified penalties P.10, row 11, *AUCA* (63.1)(6)(a)
 - may impose up to a maximum of \$10,000 per day or \$10,000 per infraction P.10, row 11, *AUCA* (63.1)(6)(b)
- **The Minister may require the AUC to develop specified penalties for specific types of AUC rules, orders and decisions** P.11, row 11, *AUCA* (63.1)(7)

Legislative Amendments

- **The AUC may make rules respecting service standards for competitive retailers**
P.40, row 33, *EUA* (111)(1); P.40-41, row 36, *EUA* (129); P.44-45, row 2, *GUA* (28.3)
- **Only service quality standards related to billing and data transfer will be applicable to municipalities and Rural Electrification Associations** P.39-40, row 32, *EUA* (105)(1)(n); P.41, row 36, *EUA* (129)(5)
- **The mechanism for enforcement of payment of specified penalties will be added to the existing mechanism** P.11, row 12, *AUCA* (67)(1)
- **This specified penalty cannot be recovered through tariff approved by the AUC**
P.11, row 13, *AUCA* (67.1)

Small-Scale and Community Generation

Amendments: EUA Section 99

Repeals: None

Enable Small-Scale and Community Generation

- **Section 99 amendments to provide the Minister of Energy the authority to make regulations respecting small-scale and community generation**
 - Much like the regulation making powers under Section 99 (b.1) for micro-generation
 - Allows for implementation of policy direction that aligns with stakeholder support for a flexible framework for community generation
- **Next steps include developing regulation(s) respecting small-scale and community generation**

Transmission Deficiency Regulation

Amendments: EUA Sections 34, 142(1)(I)

Repeals: None

Transmission Deficiency Regulation

- **Administrative amendments to continue the policies of the Transmission Deficiency Regulation**
 - Includes Abbreviated Needs Approval Process, Market Participant Choice, and Approved Cost Estimate policies
- **Next steps include transferring those policies into the Transmission Regulation.**

Legislative Modernization

Bill Amendments:

EUA Sections 15, 18, 19, 24

Bill Repeals:

AUCA Section 32(2)

EUA Sections 37(1), 93, 149.1, Part 11, 167

Legislative Modernization

- **Minor amendments in the EUA repeal provisions that are no longer in force or necessary** P. 14, *EUA* (3); P. 37, *EUA* (30); P. 43, *EUA* (38) & (39)
 - Many of these provisions were put in place in 2003 to facilitate a previous restructuring of Alberta's electricity market
- **Other amendments ensure legislation is aligned with current government policy**
(P. 15, *EUA* (6); P. 17, *EUA* (9); P. P.26 *EUA* (19); P. 4, *AUCA* (4))
 - Section 15 of the *EUA* has been redrafted to align the financial reporting requirements of the AESO with the current standards that apply to government agencies
 - Clause is added to *EUA* empowering the Minister to request audited financial statements of the AESO's business

Closing Remarks

- Thank you for your valuable feedback throughout this process
- We look forward to continue our work together on this market framework as it is implemented
- Additional questions can be directed to electricity@gov.ab.ca