NARUC/CAMPUT Bilateral 2015

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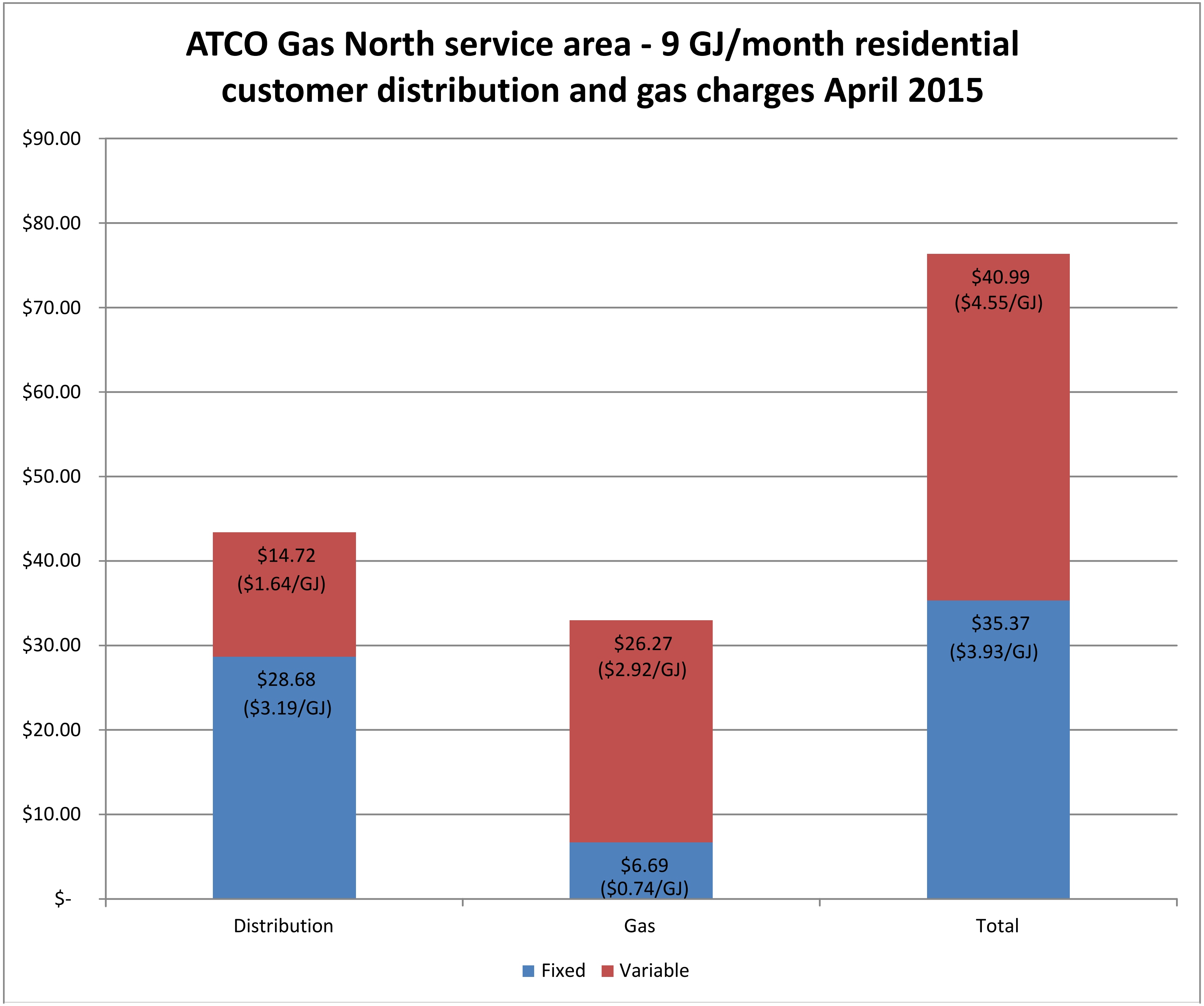
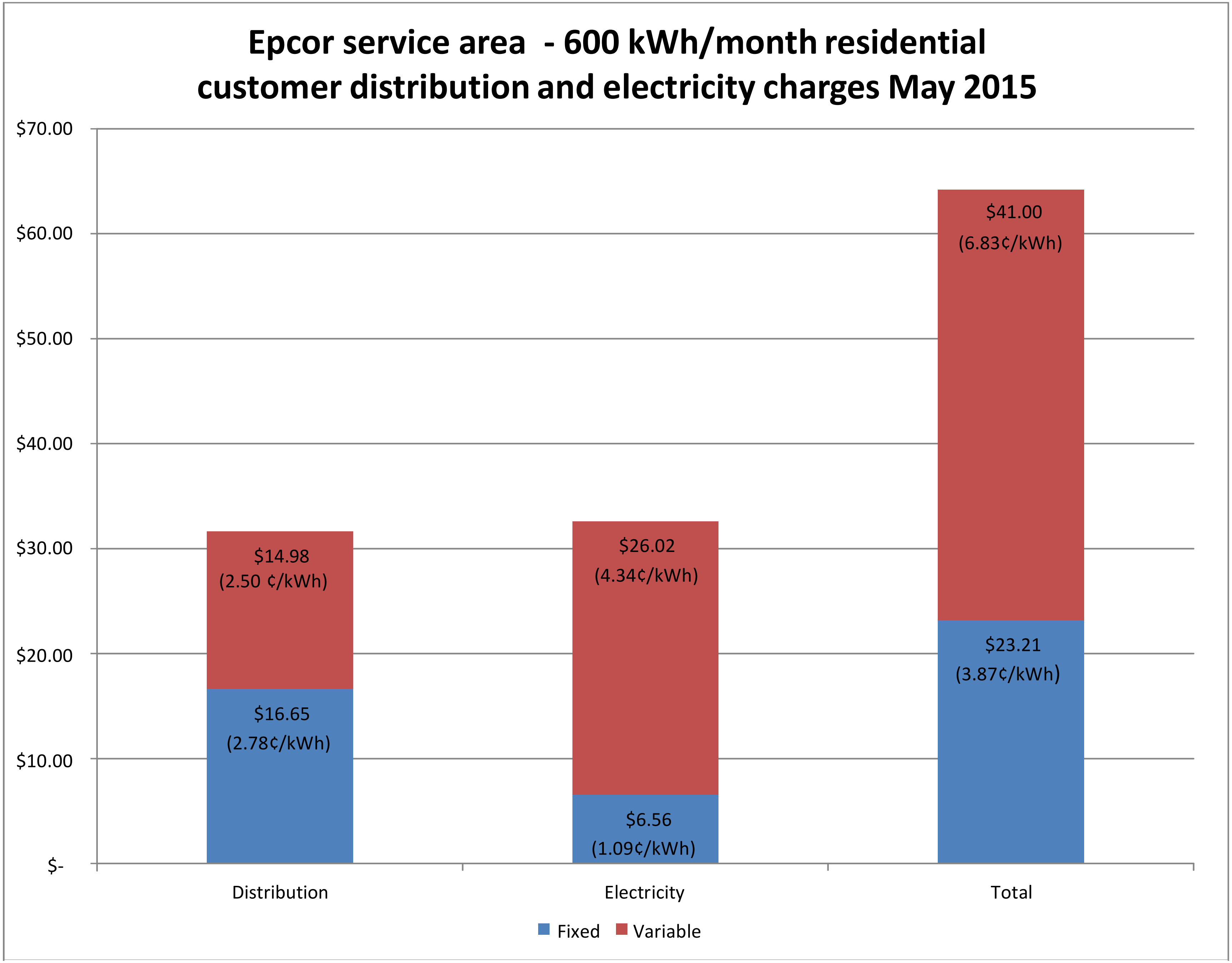
Chair, CAMPUT and
Alberta Utilities Commission

Rate Structures

- Alberta uses typical rate structures based on allocation of historical costs
- Companies seek to recover fixed costs through fixed monthly charges
- Consumers and environmental activists seek to lower fixed monthly charges to enable consumers to avoid utility costs and reduce emissions by consuming less
- Marginal or incremental cost-based rate structures will send better economic signals but create revenue requirement over-collections
  - Ramsey pricing is unpopular and difficult to


ATCO Gas North service area - 9 GJ/month residential customer distribution and gas charges April 2015
$90.00
$80.00
$70.00
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$-
$14.72
($1.64/GJ)
$28.68
($3.19/GJ)
$26.27
($2.92/GJ)
$6.69
($0.74/GJ)
$40.99
($4.55/GJ)
$35.37
($3.93/GJ)
Distribution
Gas
Total
Fixed
Variable


Epcor service area - 600 kWh/month residential customer distribution and electricity charges May 2015
$70.00
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$-
$14.98
(2.50 ¢/kWh)
$16.65
(2.78¢/kWh)
$26.02
(4.34¢/kWh)
$6.56
(1.09¢/kWh)
$41.00
(6.83¢/kWh)
$23.21
(3.87¢/kWh)
Distribution
Electricity
Total
Fixed
Variable

New utility regulatory models

- Introduction of competition requires changes to rate making model
- Continued use of rate base rate of return requires split rate base to separate historical competitive costs from monopoly costs and allocate shared and common costs
- Accounting subsets of companies remain regulated (allocations are arbitrary)
- Structural separation loses economies of scale

New regulatory models

- PBR can be used for subsets of companies but must be re-based from time to time and allocations remain
- Allocations affect the rate at which substitution or bypass of the system occurs
- As customers leave, prices must rise to meet revenue requirement leading to more customers leaving or pressure to re-allocate costs where they can be recovered

Cost of service regulation and competition

- Historical cost based rates are not economically efficient and may stifle efficient entry because new technologies may be less expensive than old technologies built today
- Competition may strand past prudent investment – who pays?
- Utilities will need pricing flexibility to respond – PBR can provide that
- Is pricing flexibility enough to provide a utility with a reasonable opportunity to recover its costs or does pricing flexibility at below marginal cost raise competition law issues?

Monopoly guarantee

- Should (can) regulators prevent competitive responses in order to allow recovery of past prudent investments? For how long?
  - Elon Musk’s battery
  - Local micro-distribution using solar and batteries for cooperating businesses and/or residences
  - Should rights of way on municipal property be granted
  - Wireless electricity?

When?

- Do we assume perpetual distribution monopoly?
  - Spend time on distributed micro-generation and reliability uncertainty
- Do we start asking the stranding questions now?
  - Will that raise risk, depreciation charges and required return?
- Let the market decide by removing monopoly guarantee protections?
  - Is that contrary to the regulatory bargain?
- What happens if we do nothing?
  - Does that stifle competition?