Decision **27562-D01-2022**

Alberta Utilities Commission

Direct Energy Regulated Services

2023-2025 Energy Price Setting Plan

December 22, 2022

Alberta Utilities Commission
Decision 27562-D01-2022
Direct Energy Regulated Services
2023-2025 Energy Price Setting Plan
Proceeding 27562

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Alberta Utilities Commission

Calgary, Alberta

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1 Decision summary

1. In this decision, the Alberta Utilities Commission considers whether to approve a request from Direct Energy Regulated Services (DERS) for approval of its 2023-2025 energy price setting plan (EPSP). For the reasons set out in this decision, the Commission does not approve the EPSP as filed and DERS has been directed to make changes to the EPSP and refile it. DERS is required to submit a compliance filing to reflect the Commission's findings and directions, on or before January 18, 2023.

2 Background

2. DERS is a business unit of Direct Energy Marketing Limited (DEML). DERS is a regulated rate option (RRO) provider and performs the electricity regulated rate tariff functions in the service territory of ATCO Electric Ltd. DERS was appointed by ATCO Electric as the RRO provider under Section 104 of the *Electric Utilities Act*. As an RRO provider, DERS is required to file monthly RRO energy rates with the Commission. These monthly RRO energy rates are determined pursuant to the *Electric Utilities Act*, in accordance with the *Regulated Rate Option Regulation* and with the EPSP approved by the Commission. DERS' approved EPSP establishes the pricing of electricity for RRO customers in ATCO Electric's distribution service territory.

3. On August 2, 2022, DERS filed an application with the Commission requesting approval of its 2023-2025 EPSP.[1] In its application, DERS filed a motion for confidential treatment of certain information and the Commission granted DERS' confidentiality request.[2]

4. On August 3, 2022, the Commission issued a notice of application requiring any party that wished to intervene in the proceeding to file a statement of intent to participate (SIP) by August 15, 2022. The Office of the Utilities Consumer Advocate (UCA) submitted a SIP before the deadline, and actively participated in the proceeding. The process steps in this proceeding consisted of the Commission and the UCA issuing public and confidential information requests (IRs) to DERS, DERS filing its responses to the IRs, public and confidential written argument, and public and confidential written reply argument. The Commission considers that the close of record for this proceeding was October 18, 2022, the date that written reply argument was filed.

[1] The redacted EPSP filed on August 2, 2022, was subsequently voided and refiled on August 15, 2022 (Exhibit 27562-X0022), along with the confidential EPSP (confidential Exhibit 27562-X0022-C), in accordance with the Commission's instructions in Exhibit 27562-X0017. As part of its responses to the information requests, DERS filed an updated redacted EPSP (Exhibit 27562-X0038) and an updated confidential EPSP (confidential Exhibit 27562-X0038-C). The illustrative rate workbook that accompanies the EPSP was initially filed on August 2, 2022 (Exhibit 27562-X0004) and was subsequently updated and refiled (Exhibit 27562-X0036).

[2] Exhibit 27562-X0017.

A separate confidential decision will be issued for those parties who have signed confidentiality undertakings in this proceeding.

3 Discussion of issues and Commission findings

5. DERS noted that while the 2023-2025 EPSP is materially consistent with the currently approved EPSP it operates under,[3] it does include some changes. The changes fall into two categories: (1) six changes to the confidential procurement protocol and (2) three changes to the non-confidential provisions of the EPSP.

6. The UCA objected to four of the proposed changes to the confidential procurement protocol. The Commission will address the UCA's objections in Section 3.1 of this decision. The UCA provided recommendations with respect to other aspects of the 2023-2025 EPSP. The Commission will address these recommendations in Section 3.2 of this decision.

7. The UCA did not object to two of the proposed changes to the confidential procurement protocol and it did not object to the three proposed changes to the non-confidential provisions. These five changes, that are not objected to, are as follows:

(i) [redacted]

(ii) [redacted]

(iii) clarifying the number of "total target volume blocks" used in the calculation of the monthly energy rates, in situations where the total target volume blocks have been over-procured because of changes in the load forecast.

(iv) updating the seasonal multipliers annually.

(v) updating the energy return margin annually in July with data from DERS' most recent Rule 005: *Annual Reporting Requirements of Financial and Operational Results* filing.

8. The Commission has reviewed the five proposed changes to the EPSP listed in the previous paragraph and has no concerns with them. The Commission therefore approves these five changes, as filed.

[3] The current EPSP that DERS operates under was initially approved in Decision 25818-D01-2021: Direct Energy Regulated Services, 2020-2022 Energy Price Setting Plan – Negotiated Settlement Agreement, Proceeding 25818, February 25, 2021. That EPSP was amended and the amended EPSP was approved in Decision 26545-D01-2021: Direct Energy Regulated Services, Acknowledgment of the Filing of Changes in the Forecast Load Methodology and Approval of Revisions to the 2020-2022 Energy Price Setting Plan, Proceeding 26545, June 14, 2021. That EPSP was amended and the amended EPSP was approved in Decision 27262-D01-2022: Direct Energy Regulated Services, Amended 2020-2022 Energy Price Setting Plan (Index), Proceeding 27262, May 17, 2022.

3.1 The UCA's objections to changes to the confidential procurement protocol

9. The UCA objected to the following changes that DERS proposed to incorporate in the confidential procurement protocol provisions of the 2023-2025 EPSP:

- [redacted]
- [redacted]
- [redacted]
- [redacted]

3.1.1 [redacted]

10. [redacted]

> [redacted]
>
> [redacted]
>
> > [redacted]
> >
> > [redacted][4]

11. [redacted]

> [redacted]

4 Confidential Decision 27262-D01-2022, Appendix 2, PDF page 30.

[redacted]

[redacted][5]

12. [redacted][6] [redacted][7]

13. [redacted][8]

14. [redacted][9] [redacted][10] [redacted][11]

Commission findings

15. [redacted]

16. [redacted]

[5] Confidential Exhibit 27562-X0038-C, page 20.
[6] Confidential Exhibit 27562-X0021-C, paragraph 30.
[7] Confidential Exhibit 27562-X0021-C, paragraph 34.
[8] Confidential Exhibit 27562-X0046-C, paragraphs 36-39.
[9] Confidential Exhibit 27562-X0047-C, paragraph 9.
[10] Confidential Exhibit 27562-X0047-C, paragraph 8.
[11] Confidential Exhibit 27562-X0042-C, DERS-UCA-2022SEP06-CONF-002(d), PDF page 13.

[redacted]

17. [redacted]

18. [redacted]

3.1.2 [redacted]

19. [redacted]

[redacted][12]

20. [redacted]

[redacted]

[redacted][13]

21. [redacted][14] [redacted][15]

22. [redacted]

[12] Confidential Decision 27262-D01-2022, Appendix 2, PDF page 31.
[13] Confidential Exhibit 27562-X0038-C, page 21.
[14] Confidential Exhibit 27562-X0021-C, paragraph 36. Confidential Exhibit 27562-X0045-C, paragraph 13.
[15] Confidential Exhibit 27562-X0045-C, paragraph 13.

[redacted][16]

23. [redacted][17]

Commission findings

24. [redacted]

[redacted]

25. [redacted]

3.1.3 [redacted]

26. [redacted][18]

27. [redacted]

[16] Confidential Exhibit 27562-X0046-C, paragraphs 54-56.
[17] Confidential Exhibit 27562-X0047-C, paragraph 12.
[18] Confidential Exhibit 27562-X0038-C, page 16.

[redacted][19]

28. [redacted][20]

29. [redacted][21] [redacted][22]

30. [redacted][23]

Commission findings

31. [redacted]

32. [redacted]

19 Confidential Exhibit 27562-X0021-C, paragraphs 39-40.
20 Confidential Exhibit 27562-X0042-C, DERS-UCA-2022SEP06-CONF-005, PDF pages 26-27.
21 Confidential Exhibit 27562-X0046-C, paragraphs 59-60.
22 Confidential Exhibit 27562-X0048-C, paragraph 33.
23 Confidential Exhibit 27562-X0047-C, paragraph 14.

3.1.4 [redacted]

33. [redacted][24] [redacted][25] [redacted][26]

34. [redacted][27] [redacted][28] [redacted][29]

35. [redacted][30]

36. [redacted][31]

Commission findings

37. [redacted]

[24] Confidential Exhibit 27562-X0038-C, page 20.
[25] Confidential Decision 27262-D01-2022, Appendix 2.
[26] Confidential Exhibit 27562-X0038-C, page 20.
[27] Confidential Exhibit 27562-X0038-C, page 21.
[28] Confidential Decision 27262-D01-2022, Appendix 2.
[29] Confidential Exhibit 27562-X0038-C, page 21.
[30] Confidential Exhibit 27562-X0046-C, paragraphs 45-46.
[31] Confidential Exhibit 27562-X0047-C, paragraph 17.

[redacted]

38. [redacted]

3.2 The UCA's recommendations with respect to other aspects of the 2023-2025 EPSP

39. The UCA made the following recommendations with respect to other aspects of the 2023-2025 EPSP:

- Exclude the net commodity risk compensation from the revenues on which the energy return margin is calculated.
- Consider imposing an expiry date of December 31, 2024, for the EPSP.
- Direct DERS to file an assessment of normalizing the load-following costs by expressing them as a percentage of the average pool prices, as part of the first application to update the seasonal multipliers.

3.2.1 Exclude the net commodity risk compensation from the revenues on which the energy return margin is calculated

40. DERS receives an energy return margin for its obligation to provide the RRO service, as required under Section 6(1)(b)(i) of the *Regulated Rate Option Regulation*. The pre-tax energy return margin is included as part of the monthly energy charge, and is calculated by dividing the after-tax energy return margin by "1 minus the income tax rate." The approved after-tax energy return margin included in the 2016-2018 EPSP,[32] the 2018-2020 EPSP[33] and the 2020-2022 EPSP[34] currently in place, is $2.83 per megawatt hour (MWh), and was calculated in the generic RRO proceeding that led to Decision 2941-D01-2015[35] and was calculated as 1.30 per cent of DERS' 2013 revenues, excluding return margin revenue, excluding local access fees revenue and excluding municipal franchise fees revenue, divided by the 2013 load.[36]

41. As part of the 2023-2025 EPSP, DERS proposed to update the after-tax energy return margin that would be in place for the January 2023 to June 2023 rate months using the revenues and load for 2021, as reported in DERS' Rule 005 reporting for 2021. The resulting after-tax return margin is $3.37/MWh. DERS included wording in the 2023-2025 EPSP that would allow

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32 Approved in Decision 21295-D01-2017: Direct Energy Regulated Services, 2016-2018 Energy Price Setting Plan Second Compliance Filing, Proceeding 21295, August 30, 2017.

33 Approved in Decision 24296-D01-2019: Direct Energy Regulated Services, 2018-2020 Energy Price Setting Plan Compliance Filing to Decision 22635-D01-2018, Proceeding 24296, May 22, 2019.

34 The initial 2020-2022 EPSP was approved in Decision 25818-D01-2021, and the subsequent amendments were approved in Decision 26545-D01-2021 and Decision 27262-D01-2022.

35 Decision 2941-D01-2015: Direct Energy Regulated Services, ENMAX Energy Corporation and EPCOR Energy Alberta GP Inc., Regulated Rate Tariff and Energy Price Setting Plans – Generic Proceeding: Part B – Final Decision, Proceeding 2941, March 10, 2015.

36 As set out in Proceeding 2941, Exhibit 0139.08.UCA-2941, PDF pages 21-22, and approved by the Commission in Decision 2941-D01-2015, paragraph 257.

it to update the after-tax energy return margin in the energy charge filings for the July 2023 rate month, the July 2024 rate month and the July 2025 rate month, using information from the most recently filed Rule 005 reports. DERS noted this is similar to what is included in the currently approved EPSPs for EPCOR Energy Alberta GP Inc. and ENMAX Energy Corporation.[37]

42. While the UCA did not object to DERS' proposal to update the after-tax energy return margins using the information for 2021 and subsequent years, it recommended that DERS be directed to remove its net commodity risk compensation[38] from the revenues used in the calculation. It submitted that the net commodity risk compensation effectively represents a profit component, and if it is included in the after-tax energy return margin calculation, DERS is effectively receiving a return on what already represents a profit component. The UCA stated that removing this profit component would be consistent with the current methodology, which excludes the return margin revenue from the calculation. It commented that this also appears consistent with the requirement in Section 6(1)(b) of the *Regulated Rate Option Regulation* that the risk margin not be considered as part of the reasonable return.[39]

43. The UCA commented that this inclusion of the commodity risk compensation in the calculation of the after-tax energy return margin does not appear to have been addressed in Decision 2941-D01-2015. It submitted that it is an issue that requires further scrutiny at this stage, in light of the significant changes to the commodity risk compensation landscape over the past few years.[40]

44. DERS submitted that while the implicit foundation of the UCA's recommendation is that the energy return margin and the commodity risk compensation compensate for the same thing, it is plain from Section 6(1) of the *Regulated Rate Option Regulation* that this is not the case. It commented that the commodity risk compensation is not profit. DERS added that the Commission has established that the energy return margin is properly determined on the basis of all retail revenues, including by implication, the commodity risk compensation revenue.[41]

Commission findings

45. The Commission approves the methodology proposed by DERS to calculate the return margin for the 2023-2025 EPSP, with the exception of the net commodity risk compensation as explained below, and approves DERS' request to update the calculation of the return margin on an annual basis as part of the 2023-2025 EPSP, with such updates included as part of the filing of the monthly energy rates for July 2023, July 2024 and July 2025.[42] The Commission finds that these updates will reflect the most up-to-date annual information, and will be consistent with the annual updates provided by the two other RRO providers that are regulated by the Commission.

46. With respect to the UCA's request to exclude the net commodity risk compensation from the calculation of the return margin, the Commission accepts the UCA's recommendation. The Commission directs DERS to remove the **net** commodity risk compensation, which is calculated

[37] Exhibit 27562-X0021, paragraph 56.
[38] Net commodity risk compensation is calculated as the commodity risk compensation revenue less the commodity gains/(losses).
[39] Exhibit 27562-X0046, paragraphs 20-25.
[40] Exhibit 27562-X0046, paragraph 24.
[41] Exhibit 27562-X0047, paragraphs 24-27.
[42] The energy rates for July 2023 will be filed in June 2023, the energy rates for July 2024 will be filed in June 2024 and the energy rates for July 2025 will be filed in June 2025.

as the difference between the commodity risk compensation and the commodity gains/(losses), from the revenues used in the calculation of DERS' return margin. Consistent with Section 6(1)(b) of the *Regulated Rate Option Regulation*, this removal will allow for clearer separation, i.e., transparency of the net commodity risk compensation for DERS' financial risks in providing RRO service, from the return margin.[43] The Commission directs DERS, in the compliance filing to this decision, to amend the wording in Section E of Schedule F, and any other relevant provisions of the 2023-2025 EPSP, to make it clear that the net commodity risk compensation is to be removed from the calculation of the return margin. The Commission also directs DERS, as part of the compliance filing, to amend the illustrative energy charge workbook that accompanies the 2023-2025 EPSP, so that it incorporates the amended wording and formula for the calculation of the return margin. The Commission further directs DERS, as part of the compliance filing, to recalculate and submit the initial return margin to be used in the 2023-2025 EPSP, by excluding the net commodity risk compensation for 2021 and including details of the recalculation.

47. The Commission acknowledges the UCA's submission that the inclusion of the commodity risk compensation in the calculation of the return margin does not appear to have been addressed in Decision 2941-D01-2015. Therefore, no specific direction was given with respect to this component. All three RRO providers now receive market-based commodity risk compensation, which was not the case when Decision 2941-D01-2015 was issued, and the Commission considers that is another reason to examine this issue here. In doing so, the Commission panel in this proceeding is aware that the UCA has made the same recommendation about the calculation of the return margin in Proceeding 27495, which is ENMAX Energy Corporation's 2023-2024 EPSP application. A separate decision for ENMAX will be issued in that proceeding after the close of record.

48. The evidence shows that under the previous commodity risk compensation methodology, DERS had a net commodity risk compensation loss of approximately $1.1 million over the 41-month period February 2018 to June 2021, and under the market-based methodology, has a net commodity risk compensation gain of approximately $10.3 million over the 14-month period July 2021 to August 2022.[44] This supports the UCA's submission that there has been a significant change to the commodity risk compensation landscape.

49. Including the net commodity risk compensation figure in the calculation of the return margin will increase the return margin for DERS if the net commodity risk compensation figure is positive, and will decrease the return margin for DERS if the figure is negative. If the net commodity risk compensation figure for a year is positive, that means that DERS' shareholder has already realized a commodity profit. If DERS is then permitted to include this commodity profit in the calculation of the return margin, this creates a compounding effect that would allow DERS to earn a further profit on the risk compensation, through the return margin. The Commission considers that this is not fair to customers, because this would result in a commodity profit component being included in the return margin when a positive amount was already earned for commodity risk, and therefore finds that the net commodity risk compensation figure should be excluded from the calculation of the return margin, in order to avoid this

43 The return margin is occasionally referred to by parties as "profit."
44 Exhibit 27562-X0041.

compounding effect. This finding is symmetrical, in that the return margin will be increased in the case where DERS' net risk compensation for a year is negative.[45]

50. As set out in the formula and the notes for calculating the return margin, in Section E of Schedule F of the 2023-2025 EPSP, the before-tax return revenues are subtracted from the total revenues. DERS was asked about how it would report these before-tax return revenues in the Rule 005 report. DERS responded that it will include the relevant information and details of the calculations used to arrive at it, in the notes section of Schedule 1 in its Rule 005 filing, similar to what is done by EPCOR Energy Alberta GP Inc. and ENMAX Energy Corporation in their Rule 005 filings.[46] The Commission considers that DERS' proposal is acceptable and will be helpful when the Commission reviews DERS' annual return margin updates in July each year. The Commission also considers that its review of the annual return margin updates will be assisted by DERS reporting the net commodity risk compensation for the year in the notes section of Schedule 1 in its Rule 005 filing. Therefore, the Commission directs DERS, as part of the notes section of Schedule 1 of its future Rule 005 reports, to include the information previously described in this paragraph about the before-tax return revenues and the net commodity risk compensation.

3.2.2 Consider imposing an expiry date of December 31, 2024, for the EPSP

51. DERS proposed a three-year term for the EPSP, with an expiry date of December 31, 2025, which is the last month for which RRO energy rates would be determined in accordance with the 2023-2025 EPSP. It indicated that the three-year term was proposed for reasons of regulatory efficiency.[47]

52. The UCA stated that given the clear similarities in the EPSPs adopted by each of the three RRO providers, regulatory efficiency would be best served by aligning the period for review of each EPSP, and it submitted that the Commission should consider imposing an expiry date of December 31, 2024, for DERS' EPSP. It noted that this would coincide with the expiry date sought by ENMAX Energy Corporation for its new EPSP, and would be six months after the expiry date for EPCOR Energy Alberta GP Inc.'s current EPSP.[48]

53. The UCA submitted that in the face of potential significant changes to the RRO landscape over the course of the next couple of years, including rapidly declining load volumes, along with the desire to achieve regulatory efficiency, it makes good sense to maintain the flexibility to conduct a broader generic process for the next generation of EPSPs.[49]

54. DERS indicated that it would not consider amending the term of the EPSP to two years in order to coincide with the expiry of ENMAX Energy Corporation's new EPSP such that the next EPSPs of DERS and ENMAX could be heard concurrently or even possibly jointly. DERS stated

45 In the case where the net risk compensation is positive, subtracting it from revenues will decrease the return margin. e.g., revenues of $1,000,000 subtract net risk compensation of $100,000 = $900,000 of revenues multiplied by the return margin percentage. In the case where the net risk compensation is negative, subtracting it from revenues will increase the return margin. e.g., revenues of $1,000,000 subtract net risk compensation of minus $100,000 = $1,100,000 of revenues multiplied by the return margin percentage.

46 Exhibit 27562-X0035, DERS-AUC-2022SEP06-005, PDF page 5.

47 Exhibit 27562-X0021, paragraph 69.

48 Exhibit 27562-X0048, paragraph 17.

49 Exhibit 27562-X0048, paragraph 19.

that the methodology it is employing is not reliant on any actions from ENMAX. DERS added that it would not predict any efficiencies to be gained from a combined proceeding.[50]

Commission findings

55. The Commission denies the UCA's recommendation and approves DERS' request that the expiry date of the new EPSP be December 31, 2025. While there are similarities between the EPSPs of the three RRO providers, there are clear differences between the proposed EPSP brought forward by DERS in this proceeding and the proposed EPSP brought forward by ENMAX in Proceeding 27495, with the key differences being in the procurement process.[51] At the current time, because there are differences between DERS' and ENMAX's procurement processes, the Commission considers that there are little to no efficiencies in abridging DERS' EPSP term.

56. If changes to the dynamics of the electricity market occur over the next few years, which result in the electricity prices determined in accordance with the approved EPSPs not being considered by the Commission to be just and reasonable or based on a fair, efficient and openly competitive electricity market, the Commission has the authority to examine such a situation and reopen the EPSPs if it deems it necessary.

3.2.3 Direct DERS to file an assessment of normalizing the load-following costs by expressing them as a percentage of the average pool prices, as part of the first application to update the seasonal multipliers

57. As part of DERS' approved 2020-2022 EPSP, instead of purchasing full-load hedge products on its own, DERS used a formula to calculate its full-load product price by indexing EPCOR Energy Alberta GP Inc.'s full-load product price. DERS proposes to continue this indexing as part of the 2023-2025 EPSP. The formula is parametrized according to the historical relationship between EPCOR's and DERS' seasonal load-following costs. Linear regression analysis is used to estimate a winter and a summer coefficient that are applied as multipliers to the difference between EPCOR's (EEA) full-load and flat product prices, as set out in the following formula:[52]

> DERS Full-Load Price = seasonal multiplier * (EEA Full-Load Price - EEA Flat Price) + DERS Flat Price[53]

58. There are two seasonal multipliers calculated. One is used in calculating the energy rates for the months April to September, and the other is used for the months October to March. The methodology for determining the seasonal multipliers is set out in Appendix F.1 of the 2023-2025 EPSP. The proposed seasonal multiplier for the rate months January 2023 to March 2023 is 0.909, and 0.846 for the rate months April 2023 to June 2023. DERS proposed to update the seasonal multipliers annually using more recent settlement data and include the new multipliers as part of the monthly energy rate filings for the July 2023, July 2024 and July 2025 rate

50 Exhibit 27562-X0039, DERS-UCA-2022SEP06-007, PDF page 24.
51 DERS' proposal involves the purchase of 7X24 and 7X16 products, through a trading platform and over-the-counter transactions, whereas ENMAX's proposal involves the simultaneous procurement of full load, 7X24 and 7X16 products through the use of descending clock auctions.
52 Exhibit 27562-X0021, paragraph 44.
53 Exhibit 27562-X0021, paragraph 44.

months.[54] DERS indicated that it would seek Commission approval of the updated seasonal multipliers prior to implementing them.[55]

59. DERS described the process and results from the linear regression analysis used to arrive at the initial seasonal multipliers of 0.909 and 0.846 included in the 2023-2025 EPSP. DERS further described its consideration of how to treat outliers in the sample data used to arrive at the two seasonal multipliers, and noted that it deemed any attempt to filter, weigh or omit outliers would be a subjective exercise. It, therefore, included all data points[56] in its analysis.

60. DERS indicated that data points that may be flagged as outliers tend to appear in months where the average pool price might itself be considered an outlier. It stated that normalizing the load-following costs by expressing them as a percentage of the average pool prices instead of as the difference would likely remove ambiguity around identifying outliers while not having a material effect on the full-load price. DERS commented that it could consider this approach either the next time the coefficients are updated, or in its next EPSP application.[57] The UCA stated it sees potential merit in this possible approach, in order to remove ambiguity around the identification of outliers. The UCA recommended that the Commission direct DERS to file an assessment of this approach as part of its next application to update the seasonal multipliers.[58]

Commission findings

61. The Commission finds it would not be efficient to initiate a separate proceeding during the term of the 2023-2025 EPSP to focus on only one item, that being a possible different approach to identifying outliers. The Commission considers this item should be addressed as part of DERS' next EPSP application, and directs DERS to include an assessment of different approaches to identifying outliers as part of its next EPSP application, but only if DERS intends to use seasonal multipliers as part of its next EPSP.

62. For its 2023-2025 EPSP, DERS indicated that it plans to update the seasonal multipliers annually and to seek Commission approval of these updated seasonal multipliers prior to implementing them. The Commission finds that updating the seasonal multipliers is a mathematical/statistical exercise, and the annual updates should just reflect the additional data used to calculate the multipliers. As long as DERS does not change the methodology used in calculating the seasonal multipliers on an annual basis over the course of the 2023-2025 EPSP, the Commission will not require DERS to file the updated figures for approval prior to implementing them, particularly when the same methodology is used to do the updates.

63. The Commission directs DERS, as part of the annual updating of the seasonal multipliers, to use the same methodology used in determining the initial seasonal multipliers of 0.909 and 0.846, set out on Appendix F.1 of the 2023-2025 EPSP, with only the underlying data period being updated each year, and to include all data points as part of the annual updating calculations. The Commission directs that DERS include the updated seasonal multipliers and the details underlying the linear regression analysis undertaken, as part of the monthly rate filings for the July 2023, July 2024 and July 2025 rate months. Interested parties will be able to review this publicly available information and file any concerns they have with the Commission.

54 Exhibit 27562-X0038, Appendix F.1, page 30.
55 Exhibit 27562-X0039, DERS-UCA-2022SEP06-004(b), PDF page 12.
56 Exhibit 27562-X0021, paragraphs 45-53.
57 Exhibit 27562-X0039, DERS-UCA-2022SEP06-004(d), PDF page 13.
58 Exhibit 27562-X0046, paragraph 12.

The Commission will also review this information and it may initiate a review process if necessary.

4 Compliance filing

64. To account for the Commission's findings and directions included as part of this decision, it is necessary for DERS to submit a compliance filing. The Commission directs DERS to submit a compliance filing on or before January 18, 2023, that incorporates all the effects of the Commission's findings and directions in this decision. The compliance filing should include an updated public and confidential 2023-2025 EPSP, and an updated illustrative energy charge workbook.

65. The directions and findings DERS is required to incorporate into the compliance filing should be fairly straightforward. Consequently, if DERS complies fully with all of the directions and findings from this decision and it does not include any new requests or non-directed changes in its compliance filing, the Commission considers that the compliance filing could be dealt with as a routine application as set out in Section 4 (Streamlining compliance filings), of Bulletin 2016-18, Rates proceedings process improvements, October 18, 2016.

5 Order

66. It is hereby ordered that:

(1) Direct Energy Regulated Services will submit a compliance filing to this decision to reflect the Commission's findings and directions, on or before January 18, 2023.

Dated on December 22, 2022.

Alberta Utilities Commission

(original signed by)

Carolyn Dahl Rees
Chair

(original signed by)

Vincent Kostesky
Acting Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
Direct Energy Regulated Services (DERS)
Office of the Utilities Consumer Advocate (UCA) Reynolds, Mirth, Richards & Farmer LLP

Alberta Utilities Commission Commission panel C. Dahl Rees, Chair V. Kostesky, Acting Commission Member Commission staff A. Sabo (Commission counsel) M. McJannet D. Lucas D. Mitchell

Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. [redacted]

2. [redacted]

   [redacted]

3. [redacted]

4. [redacted]

5. With respect to the UCA's request to exclude the net commodity risk compensation from the calculation of the return margin, the Commission accepts the UCA's recommendation. The Commission directs DERS to remove the net commodity risk compensation, which is calculated as the difference between the commodity risk compensation and the commodity gains/(losses), from the revenues used in the calculation of DERS' return margin. Consistent with Section 6(1)(b) of the Regulated Rate Option Regulation, this removal will allow for clearer separation, i.e., transparency of the net commodity risk compensation for DERS' financial risks in providing RRO service, from the return margin. The Commission directs DERS, in the compliance filing to this decision, to amend the wording in Section E of Schedule F, and any other relevant provisions of the 2023-2025 EPSP, to make it clear that the net commodity risk compensation is to be removed from the calculation of the return margin. The Commission also directs DERS, as part of the compliance filing, to amend the illustrative energy charge workbook that accompanies the 2023-2025 EPSP, so that it incorporates the amended wording and formula for the calculation of the return margin. The Commission further directs DERS, as part of the compliance filing, to recalculate and submit the initial return margin to be used in the 2023-2025 EPSP, by excluding the net

commodity risk compensation for 2021 and including details of the recalculation. .... paragraph 46

6. As set out in the formula and the notes for calculating the return margin, in Section E of Schedule F of the 2023-2025 EPSP, the before-tax return revenues are subtracted from the total revenues. DERS was asked about how it would report these before-tax return revenues in the Rule 005 report. DERS responded that it will include the relevant information and details of the calculations used to arrive at it, in the notes section of Schedule 1 in its Rule 005 filing, similar to what is done by EPCOR Energy Alberta GP Inc. and ENMAX Energy Corporation in their Rule 005 filings. The Commission considers that DERS' proposal is acceptable and will be helpful when the Commission reviews DERS' annual return margin updates in July each year. The Commission also considers that its review of the annual return margin updates will be assisted by DERS reporting the net commodity risk compensation for the year in the notes section of Schedule 1 in its Rule 005 filing. Therefore, the Commission directs DERS, as part of the notes section of Schedule 1 of its future Rule 005 reports, to include the information previously described in this paragraph about the before-tax return revenues and the net commodity risk compensation. .... paragraph 50

7. The Commission finds it would not be efficient to initiate a separate proceeding during the term of the 2023-2025 EPSP to focus on only one item, that being a possible different approach to identifying outliers. The Commission considers this item should be addressed as part of DERS' next EPSP application, and directs DERS to include an assessment of different approaches to identifying outliers as part of its next EPSP application, but only if DERS intends to use seasonal multipliers as part of its next EPSP. .... paragraph 61

8. The Commission directs DERS, as part of the annual updating of the seasonal multipliers, to use the same methodology used in determining the initial seasonal multipliers of 0.909 and 0.846, set out on Appendix F.1 of the 2023-2025 EPSP, with only the underlying data period being updated each year, and to include all data points as part of the annual updating calculations. The Commission directs that DERS include the updated seasonal multipliers and the details underlying the linear regression analysis undertaken, as part of the monthly rate filings for the July 2023, July 2024 and July 2025 rate months. Interested parties will be able to review this publicly available information and file any concerns they have with the Commission. The Commission will also review this information and it may initiate a review process if necessary. .... paragraph 63

9. To account for the Commission's findings and directions included as part of this decision, it is necessary for DERS to submit a compliance filing. The Commission directs DERS to submit a compliance filing on or before January 18, 2023, that incorporates all the effects of the Commission's findings and directions in this decision. The compliance filing should include an updated public and confidential 2023-2025 EPSP, and an updated illustrative energy charge workbook. .... paragraph 64