



**FortisAlberta Inc.**

**2024 Annual Performance-Based Regulation Rate Adjustment**

**March 27, 2024**

**Alberta Utilities Commission**

Decision 28576-D02-2024

FortisAlberta Inc.

2024 Annual Performance-Based Regulation Rate Adjustment

Proceeding 28576

March 27, 2024

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## **1 Decision summary**

1. In this decision, the Alberta Utilities Commission considers FortisAlberta Inc.'s 2024 annual performance-based regulation (PBR) rate adjustment filing pursuant to the provisions of the third generation PBR (PBR3) plan. The Commission finds that Fortis's 2024 distribution rates proposed in this application are determined in accordance with the provisions of the PBR3 plan approved in Decision 27388-D01-2023.<sup>1</sup> For the reasons detailed in this decision, the Commission has determined that no changes are required to the 2024 distribution rates including the system access service (SAS) rates, options and riders, as well as the terms and conditions (T&Cs) for electric distribution service previously approved on an interim basis in Decision 28576-D01-2023.<sup>2</sup>

2. For clarity, the T&Cs for electric distribution service for 2024 are approved on a final basis. The 2024 distribution rates will remain interim until the approved levels of all remaining placeholders (such as the I factor, Y factor and K-bar amounts) have been determined by the Commission.

## **2 Introduction**

3. On October 4, 2023, the Commission issued Decision 27388-D01-2023 setting out the parameters of the new PBR3 plan in place for the 2024-2028 term. As directed in that decision, on November 3, 2023, Fortis submitted its compliance filing by way of a 2024 annual PBR rate adjustment filing, requesting approval of its 2024 electric distribution access service (DAS) rates, options and riders, transmission SAS rates, billing determinants and corresponding rate schedules in accordance with the parameters of the PBR3 plan. Fortis also requested approval of its customer and retailer T&Cs of electric distribution service. Additionally, Fortis included in the application its 2022 transmission access charge deferral account (TACDA) true-up and requested the related true-up amounts be collected or refunded through the Transmission Adjustment Rider (TAR).

4. After issuing a notice of the application on November 7, 2023, the Commission received a statement of intent to participate (SIP) from the Consumers' Coalition of Alberta (CCA), the Office of the Utilities Consumer Advocate (UCA), Battle River Power Coop (BRPC), and the Alberta Federation of Rural Electrification Associations (AFREA). The UCA and the CCA did not actively participate in this proceeding. BRPC and AFREA's participation in this proceeding was limited to issues related to Fortis's allocation of transmission costs, including testing whether Fortis's updated TACDA true-up methodology reflects what was previously approved

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<sup>1</sup> Decision 27388-D01-2023: 2024-2028 Performance-Based Regulation Plan for Alberta Electric and Gas Distribution Utilities, Proceeding 27388, October 4, 2023.

<sup>2</sup> Decision 28576-D01-2023: FortisAlberta Inc., 2024 Interim Performance-Based Regulation Rate Adjustment, Proceeding 28576, December 15, 2023.

by the Commission.<sup>3</sup> The concerns raised by BRPC and AFREA with regard to this issue are discussed in Section 7.3.

5. The process established for this proceeding included Commission and intervener information requests (IRs) to Fortis, intervener evidence, IRs on intervener evidence, written argument and reply argument. Based on a preliminary review of Fortis's application, the Commission issued Decision 28576-D01-2023 on December 15, 2023, approving Fortis's 2024 rates on an interim basis, effective January 1, 2024. This was done to ensure that Fortis was able to implement rates in accordance with the interim decision on January 1, 2024.

### 3 Background

6. The first year of the Commission's third generation PBR3 plan is 2024. This follows a cost-of-service rebasing year in 2023. The PBR3 framework approved in Decision 27388-D01-2023 provides a rate-setting mechanism (price cap for electric distribution utilities and revenue-per-customer cap for gas distribution utilities). During the PBR3 term, rates are adjusted annually using a formula that includes an indexing mechanism that tracks the rate of inflation ( $I$ ) that is relevant to the prices of inputs the utilities use, less a productivity offset ( $X$ ). With the exception of specifically approved adjustments, as discussed further below, a utility's revenues are not linked to its costs during the PBR term. The PBR price cap formula relevant to Fortis is set out below:

$$R_t = R_{t-1} * (1 + I - X) \pm K \pm Kbar \pm Y \pm Z \pm ESM$$

where:

$R_t$  Rates for the current year.

$R_{t-1}$  Rates for the previous year.

$I$  The  $I$  factor.

$X$  The productivity offset.

$K$  Type 1 capital adjustments.

$Kbar$  Type 2 capital adjustments.

$Y$   $Y$  factor adjustments.

$Z$   $Z$  factor adjustments.

$ESM$  Earnings sharing mechanism (ESM).

7. In Decision 27388-D01-2023, the Commission approved the continuation of certain PBR rate adjustments to enable the recovery of specific costs where certain criteria have been satisfied. These include an adjustment for certain flow-through costs that should be recovered

<sup>3</sup> Exhibit 28576-X0036, AUC letter - Directions on procedure and ruling on Fortis motion; Exhibit 28576-X0049, AUC letter - Ruling on BRPC motion to modify process schedule and late SIP from AFREA.

from, or refunded to, customers directly (Y factors) and an adjustment to account for the effect of exogenous and material events for which the distribution utility has no other reasonable cost recovery or refund mechanism within the PBR plan (Z factor).

8. For the PBR3 plan, the Commission continued to divide capital into Type 1 and Type 2 capital. For Type 1 capital, the Commission approved a modified capital tracker mechanism with defined eligibility criteria, with the revenue requirement associated with approved amounts to be collected from ratepayers by way of a “K factor” adjustment to the annual PBR rate-setting formula. For Type 2 capital, the Commission approved a K-bar mechanism that provides an amount of capital funding for each year of the PBR3 plan based, in part, on capital additions made during the PBR2 term.

9. Each distribution utility’s annual PBR rate adjustment filing addresses all applicable parameters relevant to the establishment of the PBR rates and T&Cs for that utility for a given year, and relies on certain filed information to establish rates including:

- I factor and the resulting I-X index;
- K factor and K-bar factor adjustments related to approved Type 1 and Type 2 capital, respectively, including true-ups from prior periods;
- Y factor adjustment to collect flow-through items that are not collected through separate riders;
- previously approved Z factors;
- billing determinants for each rate class;
- backup showing the application of the formula by rate class and resulting rate schedules;
- a copy of the Rule 005<sup>4</sup> filing filed in the current year as well as the return on equity (ROE) adjustment schedules for prior years;
- certain financial reporting requirements;
- changes proposed to T&Cs; and
- any other material relevant to the establishment of current year rates.

10. In addition to these items, the current annual PBR rate adjustment filing contains rate components that relate to PBR2 such as the efficiency carryover mechanism (ECM), 2022 K-bar and TACDA true-ups as well as components that relate to the 2023 rebasing year such as the 2023 opening rate base true-up.

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<sup>4</sup> Rule 005: *Annual Reporting Requirements of Financial and Operational Results*.

## 4 PBR rate adjustments

### 4.1 2023 going-in revenue requirement adjustments

11. In accordance with the Commission's direction in Decision 26615-D01-2022,<sup>5</sup> Fortis adjusted its 2023 revenue requirement to reflect the actual 2022 closing rate base, which is also the 2023 opening rate base.<sup>6</sup> The applied-for adjustment was a \$4.9 million increase; the majority of the increase is associated with higher recoverable income tax expense.<sup>7</sup> Fortis also removed from its 2023 going-in revenue requirement the costs categorized as Y factor adjustments under the PBR plan. The revised 2023 going-in revenue requirement is \$665.0 million.

12. The Commission has reviewed the adjustments that Fortis has applied to its 2023 approved revenue requirement and finds them to be acceptable and in accordance with the Commission's directions. The Commission approves Fortis's 2022 actual capital additions as prudent based on its review of the variances between the actuals and placeholder amounts provided in the rebasing process and considering that Fortis was subject to the incentives of PBR when these costs were incurred and that no party took issue with these amounts. Therefore, the Commission approves the \$4.9 million closing rate base increase and the 2022 actual closing rate base. Accordingly, the Commission approves Fortis's 2023 going-in revenue requirement of \$665.0 million.

### 4.2 2024 PBR indices and annual adjustments

13. As detailed in Section 3, the PBR3 price cap plan for Fortis provides a rate-setting mechanism based on a formula that adjusts customer rates annually by means of the I-X indexing mechanism plus specifically approved adjustments. The annual parameters and adjustments utilized by Fortis to arrive at its 2024 rates and the Commission's assessment of the applied-for amounts are detailed below. Additional discussion on select parameters is provided in the sections that follow.

14. Fortis did not apply for any Type 1 capital funding or Z factor rate adjustments to be included in its 2024 PBR rates. In addition, ESM provisions are not discussed in the current application as Fortis's achieved ROE in 2024 would not be available until the next year.

#### I-X index

15. Similar to previous PBR plans, the I factor is calculated as a weighted average of two indexes published by Statistics Canada: one for labour costs and one for non-labour costs; however, some of the indexes and their weighting was changed. The index used to represent labour cost inflation is the fixed weighted index of average hourly earnings for all employees in Alberta. For the non-labour index, the Commission determined that the Alberta consumer price

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<sup>5</sup> Decision 26615-D01-2022: ATCO Electric Ltd. and FortisAlberta Inc., 2023 Cost-of-Service Review, Proceeding 26615, July 28, 2022, paragraph 62.

<sup>6</sup> Opening and closing rate base is required due to the mid-year convention for setting rates. The mid-year convention is the accepted method for approximating the cost of capital investments in the year, and for the purposes of calculating other capital related costs. The mid-year convention uses an arithmetical average of a utility's investments to account for capital-related costs uniformly over the entire year, recognizing that assets are added to rate base throughout the year. It is commonly used in regulatory jurisdictions in North America. Fortis used the 2023 forecast closing rate base to calculate going-in rates, which is calculated using the actual 2022 closing rate base and the forecast 2023 capital additions approved in Decision 26615-D01-2022.

<sup>7</sup> Exhibit 28576-X0001.01, application, paragraph 62.

index for all items should continue to be used. Using the 60:40 weighting of the approved labour to non-labour inflation indexes, Fortis calculated the interim 2024 I factor to be 4.02 per cent.

16. The approved X factor for the PBR3 term is 0.4 per cent, inclusive of industry total factor productivity growth, a stretch factor and a benefit-sharing premium.<sup>8</sup> As explained in Decision 27388-D01-2023, for K-bar calculation purposes, the X factor is 0.1 per cent because it excludes the benefit-sharing premium component.<sup>9</sup>

17. Fortis calculated the 2024 I-X index to be 3.62 per cent by subtracting the approved X factor of 0.4 per cent from the I factor of 4.02 per cent. To comply with the Commission's direction from a prior decision, Fortis provided dated screenshots of the Statistics Canada tables used in determining its I factor.<sup>10</sup> No party objected to Fortis's applied-for I factor.

18. The Commission has reviewed Fortis's calculation of the 2024 I factor and finds it to be consistent with the methodology set out in Decision 27388-D01-2023.<sup>11</sup> Accordingly, the 2024 interim I factor of 4.02 per cent and the resulting I-X index of 3.62 per cent are approved. For K-bar purposes, the I-X index of 3.92 per cent is approved.

19. Consistent with the determinations in Decision 27388-D01-2023, the interim I factor of 4.02 per cent will be trued up in a future proceeding to reflect the actual experienced inflation in 2024.<sup>12</sup>

## Y factor

20. The Y factor includes costs that the Commission determines should be directly recovered from customers or refunded to them provided that they do not qualify for capital treatment or Z factor treatment.<sup>13</sup> After revisions and updates in responses to Commission IRs, Fortis's 2024 Y factor amounted to \$10.16 million, inclusive of carrying costs, as set out in the table below:

**Table 1. 2024 Y factor amounts**

Item	2024 Forecast	2022 True-up	2023 True-up	2024 Total
	(\$ million)			
AUC Assessment Fees	1.80	(0.42)	0.00	1.38
Hearing Costs for Intervenors	0.28	0.05	0.24	0.57
Alberta Electric System Operator (AESO) Load Settlement Costs	0.66	0.01	0.02	0.70
Property and Business Taxes	1.82	(0.22)	0.00	1.60
Farm Transmission Credit	(3.16)	0.00	0.00	(3.16)
Municipality of Crowsnest Pass	0.00	0.00	0.00	0.00
Town of Fort Macleod	0.00	0.00	0.00	0.00
Efficiency Carryover Mechanism	10.05	0.00	(0.02)	10.02
Cost Claims	0.00	0.00	0.00	0.00
AESO Contributions	0.00	0.00	(1.04)	(1.04)

<sup>8</sup> Decision 27388-D01-2023, paragraph 2.

<sup>9</sup> Decision 27388-D01-2023, paragraphs 102-103.

<sup>10</sup> Exhibit 28576-X0021.01, Tab 1.1.

<sup>11</sup> Decision 27388-D01-2023, paragraph 70.

<sup>12</sup> Decision 27388-D01-2023, paragraph 95.

<sup>13</sup> Decision 2012-237: Rate Regulation Initiative, Distribution Performance-Based Regulation, Proceeding 566, Application 1606029, September 12, 2012, paragraphs 617 and 631. Largely the same Y factor definition was adopted in Decision 27388-D01-2023, Appendix 5, Section 2, Y factor, PDF page 123.



Item	2024 Forecast	2022 True-up	2023 True-up	2024 Total
	(\$ million)			
Carrying Cost	0.00	(0.02)	(0.14)	(0.16)
Emergency Billing Relief Program	0.00	0.00	0.25	0.25
<b>Total Y factor adjustments</b>	<b>11.45</b>	<b>(0.59)</b>	<b>(0.69)</b>	<b>10.16</b>

Source: Exhibit 28576-X0021.01, Schedule 2.1.

21. The Commission has assessed the amounts included in Fortis's applied-for Y factor and finds they were adequately supported, properly calculated and in compliance with previous Commission directions. The Commission has also reviewed Fortis's carrying costs and finds that they are properly calculated and consistent with the applicable provisions of Rule 023: *Rules Respecting Payment of Interest*. Accordingly, the applied-for Y factor amount is approved.

22. On August 14, 2023, the AUC initiated an Emergency Billing Relief Program (EBRP) that temporarily paused electric utility billings for customers affected by the 2023 wildfire evacuations in Alberta.<sup>14</sup> Under this program, eligible customers received a billing credit for the period of time they were impacted by the mandatory evacuations.

23. As shown in Table 1 above, Fortis included \$0.25 million as a Y factor to recover the billing relief credits provided to eligible customers. Fortis confirmed that this amount does not include any costs specific to the administration of the EBRP, as it was able to manage the associated costs within revenues provided for the 2023 cost-of-service year. Given this confirmation, the Commission approves the \$0.25 million Y factor related to the EBRP. In future applications dealing with EBRP amounts, the Commission directs Fortis to provide a detailed breakdown of costs by applicable evacuation area, the average length of time of the mandatory evacuation, as well as the corresponding billing-relief credit by rate class.<sup>15</sup>

### K-bar

24. K-bar funding provides incremental funding for Type 2 capital to supplement the revenues generated under the I-X mechanism. The 2024 K-bar funding in PBR3 is calculated by taking the difference between a notional revenue requirement based on capital additions equal to an escalated average of actual capital additions in the 2018-2022 PBR term and the revenue obtained under I-X for each project or program included in Type 2 capital. For each subsequent year, K-bar will be calculated using the same steps as those used for 2024, with adjustments made to account for the effects of inflation and productivity growth, customer growth and changes to the weighted average cost of capital for a given year.<sup>16</sup>

25. In the application, Fortis calculated its K-bar amount using the notional ROE of nine per cent approved as a placeholder in Decision 27084-D02-2023.<sup>17</sup> Subsequently, Fortis updated its 2024 K-bar calculation to use the ROE of 9.28 per cent approved in Decision 28585-D01-2023.<sup>18</sup> Using the approved ROE, Fortis calculated its K-bar funding to be \$30.63 million. Additionally,

<sup>14</sup> Bulletin 2023-04, Emergency Billing Relief Program for wildfire evacuation orders, August 14, 2023.

<sup>15</sup> For an example of such breakdown, please refer to ATCO Electric's Proceeding 28570, Exhibit 28570-X0002, application, Section 4.5.7.

<sup>16</sup> Decision 27388-D01-2023, Appendix 7.

<sup>17</sup> Decision 27084-D02-2023: Determination of the Cost-of-Capital Parameters in 2024 and Beyond, Proceeding 27084, October 9, 2023.

<sup>18</sup> Decision 28585-D01-2023: 2024 Return on Equity, Proceeding 28585, November 20, 2023.

Fortis's 2022 K-bar true-up for the actual cost of debt resulted in a refund to customers of \$0.48 million. No party objected to Fortis's applied-for K-bar funding or K-bar true-up.

26. The Commission has reviewed Fortis's schedules showing the calculation of the 2024 K-bar funding and the 2022 K-bar true-up and finds that its methodology for escalating retirements as part of its 2024 K-bar calculation does not align with the methodology set out in Decision 27388-D01-2023. Decision 27388-D01-2023 directs utilities to "calculate the notional amount for retirements in each year by using the approved I factor to convert the average retirements to that year's dollars."<sup>19</sup> Fortis escalated its retirements for 2024 onwards by the I factor but escalated 2018-2022 retirements by I-X and customer growth. Fortis did so because it interpreted the direction to convert the average 2018-2022 capital additions to 2023 dollars using the approved I-X index and customer growth escalator to mean that retirements should also be escalated by I-X and customer growth.<sup>20</sup> The Commission disagrees with Fortis's interpretation and finds that retirements should be escalated by I factor only for all years. The Commission directs Fortis to use this method in calculating K-bar amounts during the PBR3 plan.

27. In its IR responses, Fortis provided revised K-bar calculations in which it escalated retirements by I factor only, resulting in a K-bar of \$30.55 million.<sup>21</sup> Although this is not materially different from Fortis's applied-for K-bar of \$30.63 million, the Commission finds that consistency in the K-bar calculations will aid it in its review of future K-bar calculations. Therefore, the Commission approves the K-bar value of \$30.55 million provided in Fortis's IR responses. Given that Fortis did not provide updated rate calculations to reflect this change, and that the difference in K-bar values is minimal, the Commission directs Fortis to incorporate this change to K-bar as a true-up when it completes the 2024 K-bar true-up for the 2024 actual I factor and cost of debt true-up. The Commission also approves Fortis's 2022 K-bar true-up refund of \$0.48 million.

## ECM

28. As part of the PBR2 plan, the Commission included an efficiency carryover mechanism, or ECM, which permitted the utilities to carry a portion of earnings in excess of the approved ROE to the following years. Although the Commission discontinued the inclusion of an ECM in the PBR3 plan, the ROE add-on approved in the PBR2 term applies for two years after the end of a PBR plan (i.e., 2023 and 2024) and is collected by way of a Y factor in these two years.<sup>22</sup>

29. The PBR2 ECM ROE add-on is calculated as 50 per cent of the difference between the average allowed and average actual ROEs over the course of the PBR2 term, with an upper limit of 0.5 per cent. Fortis showed that, based on its returns over the PBR2 term, it qualifies for the maximum allowed ECM ROE add-on of 0.5 per cent. In Decision 27671-D01-2022, the Commission determined that ECM dollar amount will be calculated based on the 2022 actual approved mid-year rate base.<sup>23</sup> By applying the 0.5 per cent add-on amount to the actual 2022

<sup>19</sup> Decision 27388-D01-2023, Appendix 7 – K-bar calculation, PDF page 132.

<sup>20</sup> Exhibit 28576-X0052, FAI-AUC-2023NOV24-004(a).

<sup>21</sup> Exhibit 28576-X0054, FAI-AUC-2023NOV24-004 Attachment, Schedule 1.

<sup>22</sup> Decision 20414-D01-2016 (Errata): 2018-2022 Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Proceeding 20414, February 6, 2017, paragraph 79.

<sup>23</sup> Decision 27671-D01-2022: FortisAlberta Inc., 2023 Cost-of-Service Compliance Filing and 2023 Rates, Proceeding 27671, December 16, 2022, paragraphs 53-54.

mid-year rate base and escalating by the approved indexes, Fortis calculated its 2024 ECM amount to be \$10.05 million.

30. In accordance with the Commission's direction from Decision 27671-D01-2022, where it approved an interim 2023 ECM amount,<sup>24</sup> Fortis included a true-up that recognized the difference between the 2023 interim ECM amount of \$9.72 million and the final ECM amount of \$9.70 million reflecting the actual 2022 mid-year rate base. As such the 2023 ECM true-up amount is equal to (\$0.02) million.

31. The Commission has reviewed Fortis's calculation of its total ECM amount and finds it to be properly calculated and consistent with the approved methodology. Accordingly, the Commission approves a total ECM amount of \$10.02 million, consisting of the 2024 ECM amount and the 2023 ECM true-up.

### 4.3 Forecast billing determinants and prior year variance analysis

32. Forecast billing determinants are generally used to allocate K, K-bar, Y and Z factors to rate classes and to calculate the resulting rate adjustments. Additionally, the customer growth billing determinant is used for calculating K-bar for all distribution utilities<sup>25</sup> and is also used in performing the annual use-per-customer adjustments for gas distribution utilities under the revenue-per-customer cap plan.

33. In its application, Fortis provided detailed 2024 billing determinant forecasts.<sup>26</sup> Fortis submitted that its forecast 2024 billing determinants were based on the same methodology approved in Decision 2013-072.<sup>27</sup> Additionally, Fortis prepared a variance analysis by comparing the forecast 2022 billing determinants with actual 2022 billing determinants.

34. For K-bar purposes, the Commission approved the use of the customer growth factor to account for the incremental revenue associated with system growth. The customer growth factor is calculated as the year-over-year percentage change in the average customer count reduced by 15 per cent. Based on its forecast number of customers, Fortis applied for a customer growth factor of 0.90 per cent.<sup>28</sup>

35. In Decision 25843-D01-2020, the Commission directed Fortis to continue to provide information on any variances from forecast to actual billing determinants by rate class and identify the cause of variances larger than  $\pm$  five per cent on an annual basis.<sup>29</sup> There were variances greater than five per cent in the "Peak Metered" category for the Farm Service, Small General Service, and General Service rate classes. Fortis explained that the reason for the variance in these items was the rate allocation change approved in Decision 25916-D01-2021.<sup>30</sup> There were also variances greater than five per cent in the "Energy" category for the Irrigation

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<sup>24</sup> Decision 27671-D01-2022, paragraph 56.

<sup>25</sup> Decision 27388-D01-2023, paragraph 170.

<sup>26</sup> Exhibit 28576-X0022, Schedule 2.4.

<sup>27</sup> Decision 2013-072: 2012 Performance-Based Regulation Compliance Filings, AltaGas Utilities Inc., ATCO Electric Ltd., ATCO Gas and Pipelines Ltd., EPCOR Distribution & Transmission Inc. and FortisAlberta Inc., Proceeding 2130, Application 1608826, March 4, 2013, paragraph 243.

<sup>28</sup> Exhibit 28576-X0001.01, application, Table 2-5.

<sup>29</sup> Decision 25843-D01-2020, paragraph 55.

<sup>30</sup> Decision 25916-D01-2021: FortisAlberta Inc., 2022 Phase II Distribution Tariff Application, Proceeding 25916, July 8, 2021, paragraphs 128-133.

Service and Oil and Gas Service rate classes. Variance explanations were provided in Schedule 2.4 of the application.<sup>31</sup>

36. The Commission considers that variances from forecasts such as those described by Fortis for 2022 may reasonably be expected for current purposes. Such occurrences do not generally call into question the predictive value of the methodology used to generate such forecasts, and Fortis is directed to continue to provide information on any variances from forecast to actual billing determinants by rate class and to identify the cause of variances larger than five per cent on an annual basis.

37. Based on its review and assessment, the Commission finds Fortis's 2024 forecast billing determinants, including the customer growth factor of 0.90 per cent, to be reasonable and approves them.

## 5 2022 TACDA true-up

38. All electric distribution utilities accessing the electric transmission system in the province are charged by the AESO for transmission services provided in relation to customers and rural electrification associations (REAs) in the distribution utilities' service areas. The purpose of the annual TACDA true-up is to ensure that revenues collected through a distribution utility's transmission access charges in a year recover the AESO tariff charges paid by the utility in that year.

39. In the current PBR plan, TACDA amounts are considered to be a part of the Y factor and are treated as a dollar-for-dollar flow-through of the AESO tariff charges. In other words, the utility does not assume any volume or price risk, but also does not earn any return, nor risk losses, in flowing through these costs to customers.

40. The annual TACDA true-up schedules are based on the harmonized framework approved by the Commission for all four electric distribution utilities in Decision 3334-D01-2015.<sup>32</sup> To reduce regulatory burden, the annual TACDA true-up is included in Fortis's annual rate adjustment filing.

### 5.1 Total net true-up amount

41. Fortis applied for a net 2022 TACDA refund of \$44.38 million to customers. The components of the total true-up amount applied for are listed in Table 2 and are further described in this section:

**Table 2. Components of the applied-for 2022 TACDA true-up amount**

Component	True-up amount collection/(refund) (\$ million)
Previous deferral account rider true-up	0.88
2022 SAS deferral true-up	(34.20)
AESO deferral account reconciliation (DAR) true-up	(5.58)

<sup>31</sup> Exhibit 28576-X0022, Schedule 2.4, Tab 2.4-C 2022 BD Variance.

<sup>32</sup> Decision 3334-D01-2015: Commission-Initiated Review, Electric Transmission Access Charge Deferral Accounts – Annual Applications, Proceeding 3334, Application 1610728-1, July 21, 2015.

Component	True-up amount collection/(refund) (\$ million)
2022 Balancing Pool rebate true-up	(0.71)
Border Customer Deferral	(0.59)
Carrying costs	(4.17)
<b>Total collect/(refund)</b>	<b>(44.38)</b>

Source: Exhibit 28576-X0025.01, Schedule 1.0, Tab 1.1.

42. The deferral account rider true-up ensures that the amounts actually collected from or refunded to customers through a previously approved rider equal the amounts approved by the Commission. In 2022, Fortis was approved to refund \$12.81 million through the TACDA true-up TAR.<sup>33</sup> The actual amount refunded was \$13.67 million, necessitating a collection of \$0.88 million.<sup>34</sup>

43. The SAS deferral true-up ensures the actual transmission access revenues received from SAS rates and related quarterly riders equals the actual transmission costs incurred. Fortis's total 2022 transmission access revenues for distribution-connected customers, including revenues received through its quarterly TACDA true-up riders, amounted to \$815.32 million; the total transmission costs were \$781.12 million. The required refund is therefore \$34.20 million.

44. The AESO DAR deals with any variances between the actual costs the AESO incurs and the revenues it receives to ensure that "... on an annual basis, no profit or loss results from its operation."<sup>35</sup> Any such variances are refunded to, or recovered from, market participants by way of the AESO DAR, typically undertaken on an annual basis. The distribution utilities flow through these collections or refunds to customers in their service areas. The Commission approved the AESO's 2022 DAR in Decision 28293-D01-2023.<sup>36</sup> The reconciliation will result in a \$5.58 million refund to Fortis's customers.

45. Fortis's Balancing Pool true-up ensures that its Balancing Pool refund to, or collection from, its customers matches its settlement with the AESO.<sup>37</sup> In 2022, the AESO collected \$38.85 million from Fortis. Due to differences between forecast and actual billing determinants, Fortis collected \$39.56 million from its customers in 2022, necessitating a refund of \$0.71 million.

<sup>33</sup> Decision 26817-D01-2021: FortisAlberta Inc., 2022 Annual Performance-Based Regulation Rate Adjustment, Proceeding 26817, December 15, 2021, paragraph 57.

<sup>34</sup> The difference between the two numbers is not exactly \$0.88 million; the discrepancy is due to rounding.

<sup>35</sup> Under Section 14(3) of the *Electric Utilities Act*.

<sup>36</sup> Decision 28293-D01-2023: Alberta Electric System Operator, 2022 Deferral Account Reconciliation, Proceeding 28293, August 1, 2023.

<sup>37</sup> Under Section 82 of the *Electric Utilities Act*, each year the Balancing Pool is required to forecast its revenues and expenses to determine any excess or shortfall of funds. Based on this forecast, the Balancing Pool determines an annualized amount that will be refunded to, or collected from, electricity consumers over the year "... so that no profit or loss results, after accounting for the annualized amount under section 82(7) as a revenue or expense of the Balancing Pool." This amount, known as the consumer allocation, applies to all market participants who receive SAS from the AESO and is recovered through Rider F of the AESO tariff. The consumer allocation is based on the amount of electric energy consumed annually. In 2022, the Balancing Pool charged a consumer allocation of \$2.20 per megawatt hour (MWh).

46. Fortis calculated carrying costs on outstanding amounts related to the TACDA true-up balances in accordance with Rule 023.<sup>38</sup> The rate used was the weighted average Bank of Canada monthly bank rate plus 1.75 per cent and correctly calculated carrying costs on the simple interest basis. Fortis complied with the Commission's direction from Decision 25801-D01-2020<sup>39</sup> and excluded the 2022 AESO DAR from the calculation and allocation of carrying costs. The total carrying costs amounted to a \$4.17 million refund to customers.

47. Fortis's application and schedules are consistent with the harmonized framework approved by the Commission in Decision 3334-D01-2015. The Commission finds the amounts comprising the 2022 annual TACDA true-up to be reasonable. The Commission also finds the assignment of the individual components of the 2022 TACDA true-up to rate classes to be consistent with previously approved methodologies and reasonable in the circumstances. Accordingly, the Commission approves a net refund to customers of \$44.38 million as set out in Table 2 above.

## 5.2 TAR rate and effective period

48. Fortis proposed to apply the 2022 annual TACDA true-up by way of the TAR. To smooth rates over time and promote rate stability, Fortis proposed the TAR to be in effect over a 12-month period from January 1, 2024, to December 31, 2024, to coincide with the same period over which Fortis's 2024 PBR rates will be in effect.

49. Fortis calculated the TAR by summing the 2022 TACDA true-up components and related carrying costs by rate class and divided these amounts by the 2022 forecast billing determinants. The resulting true-up amounts and the proposed TAR rates are set out in the table below:

**Table 3. True-up amounts and proposed TAR rate, by rate class**

Rate class	Total true-up (\$000)	2022 Base TAR
Residential	7,075	4.20%
Farm	895	2.84%
Irrigation	(4,030)	(22.30%)
Exterior Lighting	20	1.21%
Small General Service	(4,293)	(6.38%)
Oil and Gas	(2,143)	(7.47%)
General Service	(44,366)	(16.19%)
Large General Service	1,446	0.92%
Opportunity Transmission	-	-
Transmission Connected	(193)	(\$6.662)/day
Armena REA Ltd.	17.02	\$17,020/year
Battle River Power Coop	105.54	\$105,540/year
Drayton Valley REA Ltd.	14.04	\$14,045/year
Duffield REA Ltd.	4.15	\$4,145/year
EQUUS REA Ltd.	963.89	\$963,888/year
Ermineskin REA Ltd.	1.19	\$1,195/year
Lindale REA Ltd.	(7.51)	(\$7,507)/year
Mayerthorpe & District REA Ltd.	50.46	\$50,457/year
Montana REA Ltd.	1.14	\$1,139/year

<sup>38</sup> Rule 023 applies as the lag in the implementation of the refund exceeds 12 months, and the revenue amount is sufficient per Section 3(2)(c) to warrant the awarding of carrying costs.

<sup>39</sup> Decision 25801-D01-2020: FortisAlberta Inc., 2019 Annual Transmission Access Charge Deferral Account True-Up, Proceeding 25801, November 20, 2020, paragraph 30.

Rate class	Total true-up (\$000)	2022 Base TAR
Niton REA Ltd.	11.38	\$11,385/year
North Parkland Power REA Ltd.	18.50	\$18,499/year
Peigan Indian REA Ltd.	1.62	\$1,619/year
Rocky REA Ltd.	31.62	\$31,622/year
Stony Plain REA Ltd.	12.74	\$12,744/year
T-Rural	0.32	\$321/year
Tomahawk REA Ltd.	70.95	\$70,945/year
West Liberty REA Ltd.	12.11	\$12,111/year
West Wetaskiwin REA Ltd.	(31.42)	(\$31,417)/year
Wild Rose REA Ltd.	(66.04)	(\$66,035)/year
<b>Total</b>	<b>(44,378)</b>	-

Sources: Exhibit 28576-X0025.01, Tab 1.1; Exhibit 28576-X0025.01, Tab 1.1.

50. As shown in Table 3, while the total net true-up amount results in a refund, the TAR across individual rate classes will result in a collection from some customer classes and REAs. This is due to the relative size of the components of the true-up amounts allocated to each rate class.

51. The Commission finds Fortis's use of the TAR to collect the 2022 TACDA true-up amounts to be reasonable because using a separate rider facilitates better tracking of these flow-through costs. The Commission agrees that implementing the TAR over the same period as Fortis's 2024 PBR rates will promote rate stability. In Section 6, the Commission assesses the bill impact of Fortis's 2024 PBR rates (inclusive of the TAR) and approves them.

## 6 2024 PBR rates

### 6.1 SAS rates

52. In its application, Fortis requested approval of its 2024 SAS rates, to be effective January 1, 2024. Fortis's proposed 2024 SAS rates reflect its latest forecast of AESO tariff volumes and prices. Specifically, Fortis indicated that its proposed 2024 SAS rates reflect the rates from the AESO's proposed 2024 Independent System Operator (ISO) tariff, which was under consideration in Proceeding 28627 at the time of Fortis's application; the AESO's tariff has since been approved as applied for.<sup>40</sup> Fortis assumed a pool price of \$186.39 per megawatt hour (MWh) and an operating reserve of 5.12 per cent for 2024. The operating reserve and pool price forecast are an average of the respective values over the period of September 2022 to August 2023.

53. On November 22, 2023, Fortis updated its application to account for the most recent information available in two AESO applications regarding 2024 SAS rates and the AESO's Balancing Pool Consumer Allocation Rider F. The 2024 AESO Rider F decreased from the previously approved \$2.20/MWh to \$1.30/MWh approved in Decision 28628-D01-2023.<sup>41</sup>

<sup>40</sup> Decision 28627-D01-2023: Alberta Electric System Operator, 2024 Independent System Operator Tariff Update, Proceeding 28627, December 15, 2023.

<sup>41</sup> Decision 28628-D01-2023: Alberta Electric System Operator, 2024 Balancing Pool Consumer Allocation Rider F, Proceeding 28628, November 27, 2023.

Consistent with its past practice, Fortis proposed to collect the Balancing Pool rebate as a separate rider to its SAS rates.

54. Fortis indicated that it calculated its proposed 2024 SAS rates using the same cost-of-service study methodologies and rate structure approved for its 2023 SAS rates approved in Decision 25916-D01-2021 and Decision 26818-D01-2021.<sup>42</sup>

55. The Commission has reviewed Fortis's calculations of its proposed 2024 SAS rates, the underlying assumptions and the 2024 Balancing Pool Rider and finds them to be reasonable and consistent with its past SAS rate applications. In Section 6.2, the Commission assesses the bill impact of Fortis's 2024 PBR rates (inclusive of SAS rates) and approves them. Therefore, the Commission approves the proposed 2024 SAS rates and the 2024 Balancing Pool rider.

56. BRPC and AFREA were also permitted to address whether Fortis's proposed forecast billing determinants reflect what was previously approved by the Commission.<sup>43</sup> The concerns raised by BRPC and AFREA with regard to this issue are discussed in Section 7.3.

## 6.2 Distribution rates

57. In previous sections of this decision, the Commission approved individual components of the PBR framework, including the I-X index, Y factor and K-bar factor, all of which result in annual adjustments to Fortis's PBR rates. The Commission also approved Fortis's forecast billing determinants and the associated customer growth factor for K-bar purposes. As well, the Commission approved the 2022 TACDA true-up by way of the TAR.

58. Fortis provided bill impact schedules reflecting the proposed 2024 PBR rates. Fortis's estimated typical bill impacts for customers are shown in the table below. The bill impacts reflect the changes in all rate components including DAS rates, SAS rates, riders (including the Balancing Pool rider and the TAR to recover the 2022 TACDA true-up), franchise fee, and retail and energy (commodity) charges.

**Table 4. Bill impacts of Fortis's proposed 2022 distribution rates**

Rate class description	Typical bill change – December 2023 to January 2024		
	(\$)	Distribution tariff charges <sup>44</sup>	Total charges (bundled) <sup>45</sup>
		(%)	
Residential	8.00	8.96	3.65
Farm (Breaker Billed)	20.98	9.16	3.86
Farm (Demand Metered)	45.53	9.40	3.81
FortisAlberta Irrigation	(2.25)	9.00	-0.04
Exterior Lighting	205.91	9.04	8.60
Small General Service	6.38	9.04	0.89
Oil & Gas Service	30.33	9.18	1.76
General Service	(156.22)	9.20	-0.89
Electric Vehicle Fast Charging Station	(74.12)	9.20	-2.06

<sup>42</sup> Decision 25916-D01-2021; Decision 26818-D01-2023: FortisAlberta Inc., 2022 Phase II Distribution Tariff Application Compliance Filing, Proceeding 26818, October 20, 2021.

<sup>43</sup> Exhibit 28576-X0036, AUC letter - Directions on procedure and ruling on Fortis motion; Exhibit 28576-X0049, AUC letter - Ruling on BRPC motion to modify process schedule and late SIP from AFREA.

<sup>44</sup> Distribution charges only, excluding retail and generation charges. Note: Fortis does not forecast changes in the retail or generation rates between December and January.

<sup>45</sup> All charges, comprising distribution, retail and generation charges.



Rate class description	Typical bill change – December 2023 to January 2024		
	(\$)	Distribution tariff charges <sup>44</sup>	Total charges (bundled) <sup>45</sup>
		(%)	
Large General Service	7,765.40	9.20	1.91

Source: Exhibit 28576-X0027.01, Schedule 4.2.

59. The Commission has reviewed the schedules setting out the 2024 PBR rate calculations and observes that Fortis has generally calculated its 2024 rates in a manner consistent with the parameters of the PBR3 plan and methodologies previously accepted by the Commission, apart from the K-bar retirements calculation addressed in Section 4.2. The Commission, therefore, accepts the general principles and methodologies utilized by Fortis for calculating its 2024 PBR rates.

60. The Commission has also reviewed the typical bill impacts from December 2023 to January 2024, and assessed the likelihood of rate shock resulting from the proposed 2024 PBR rates. In the past, the Commission has generally considered a 10 per cent increase from the last approved increase to be the threshold potentially indicative of rate shock. The month-over-month changes to total bundled customer bills from December 2023 to January 2024 provided by Fortis are not expected to exceed 10 per cent in any rate class.

61. As previously mentioned, the Commission approved Fortis's rates on an interim basis effective January 1, 2024. For the reasons set out in this decision, the Commission finds that no changes are required to the 2024 distribution rates previously approved on an interim basis in Decision 28576-D01-2023. These 2024 rates will remain interim until the approved levels of all remaining placeholders (such as the I factor, Y factor and K-bar amounts) have been determined for 2024 by the Commission in one or more subsequent proceedings. Fortis's 2024 rates will be finalized following such Commission approvals, and any required true-up adjustments will be made in accordance with directions subsequently provided by the Commission.

## 7 Other matters

### 7.1 T&Cs of service

62. As part of the application, Fortis amended its distribution T&Cs in accordance with Decision 27658-D02-2023.<sup>46</sup> Fortis adjusted its MILs and specific customer contributions by the I-X index for 2024. Additionally, Fortis amended Section 8.4 of its Customer T&Cs to permit Fortis more flexibility in the metering of multi-unit residential buildings.<sup>47</sup> Aside from these two updates, Fortis did not propose any changes to its Distribution Connection Services (DCS) T&Cs, DAS T&Cs nor its distribution tariff policies in its application.<sup>48</sup>

63. The Commission has reviewed Fortis's proposed increases to MILs and specific customer contributions provided in Schedule A<sup>49</sup> of the DCS T&Cs for 2024 and finds them to be consistent with Decision 27658-D02-2023. Accordingly, the Commission approves Fortis's

<sup>46</sup> Decision 27658-D02-2023: Residential Standards of Service and Maximum Investment Levels – Phase 2, Proceeding 27658, October 18, 2023.

<sup>47</sup> Exhibit 28576-X0009.01, Customer Terms and Conditions of Electric Distribution Service – Blackline.

<sup>48</sup> Exhibit 28576-X0001.01, application, paragraphs 142-146.

<sup>49</sup> Exhibit 28576-X0014.01, Customer Contributions Schedules - Blackline.

customer DCS T&Cs and retailer DAS T&Cs previously approved in Decision 28576-D01-2023, on a final basis.

64. As discussed in Section 4.2, under the provisions of the PBR3 plan, the I factor has been approved on an interim basis and will be trued up in a future proceeding to reflect the actual experienced inflation in 2024. However, the Commission recognizes that it may be impractical to true up MILs upon approval of the final I factor and directs Fortis to comment on this matter in its next PBR rate adjustment application.

## 7.2 Financial reporting requirements and senior officer attestation

65. In Decision 27388-D01-2023, the Commission adopted the requirement from the past PBR plans that each distribution utility provide the following financial information in its annual PBR rate adjustment filing:

- (a) A copy of its Rule 005 filing.
- (b) A schedule showing disallowed costs, excluded from a distribution utility's ROE.
- (c) Attestations and certifications signed by a senior officer of the distribution utility.<sup>50</sup>

66. The Commission provided a detailed summary or description of each of the above requirements in Section 4.6 of Decision 23355-D02-2018.<sup>51</sup>

67. The Commission has reviewed the financial information provided by Fortis<sup>52</sup> and is satisfied that Fortis has complied with the financial reporting requirements set out in Decision 27388-D01-2023.

## 7.3 Concerns raised by REAs

68. BRPC and AFREA's participation in this proceeding was limited to testing whether Fortis's proposed forecast billing determinants and updated TACDA true-up methodology reflect what was previously approved by the Commission.<sup>53</sup>

69. BRPC expressed concerns that it is paying for transmission costs that it has not incurred. To address these concerns, the Commission permitted BRPC to file its actual 2022 billing determinants for the sole purpose of determining whether Fortis's metering data is accurate such that cross-subsidization among the REAs is minimal.<sup>54</sup>

70. BRPC argued that Fortis's use of load settlement data to determine BRPC's use of the transmission system is neither fair nor reasonable as it is inconsistent with BRPC's records of the energy consumed by its customers. On the basis that it is more accurate, BRPC proposed that

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<sup>50</sup> Decision 27388-D01-2023, Appendix 5, Section 6, Financial reporting requirements, PDF page 125.

<sup>51</sup> Decision 23355-D02-2018: Rebasings for the 2018-2022 Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Second Compliance Proceeding, Proceeding 23355, October 10, 2018, paragraphs 71-74.

<sup>52</sup> Exhibit 28576-X0005, Appendix D; Exhibit 28576-X0006, Appendix D.

<sup>53</sup> Exhibit 28576-X0036, AUC letter - Directions on procedure and ruling on Fortis motion; Exhibit 28576-X0049, AUC letter - Ruling on BRPC motion to modify process schedule and late SIP from AFREA.

<sup>54</sup> Exhibit 28576-X0049, AUC letter - Ruling on BRPC motion to modify process schedule and late SIP from AFREA.

Fortis should use site-level energy consumption metering data provided by BRPC as the basis for the allocation of transmission charges in place of the load settlement data currently used by Fortis for that purpose.<sup>55</sup>

71. AFREA expressed concerns regarding whether there has been a historic bias in the forecasting of billing determinants for REAs. While acknowledging that its concerns may extend beyond this proceeding, it requested that the Commission direct Fortis to include a five-year history of forecast and actual billing determinant data in all future annual filings, including an exploration and explanation of the costs of obtaining actual coincident peak and non-coincident peak data for each REA.

72. The Commission has considered the concerns expressed by BRPC and AFREA. For the reasons below, the Commission finds that Fortis's transmission billing determinant forecasting methodology and TACDA true-up methodology reflect what was previously approved by the Commission.

73. First, the proposal that BRPC's energy consumption data be used by Fortis in place of the load settlement data to determine the allocation of transmission costs to BRPC is outside of the scope of this proceeding as it would require a change to the currently approved allocation methodology. The allocation methodology, including the use of the load settlement data, was approved in Decision 25916-D01-2021 and the Commission limited the scope of the interventions of BRPC and AFREA to testing whether Fortis's proposed forecast billing determinants reflect what was previously approved by the Commission.

74. In its rebuttal evidence, Fortis confirmed that it used load settlement data to allocate transmission costs to REAs, in accordance with Decision 25916-D01-2021.<sup>56</sup> In its 2022 TACDA true-up, Fortis used this approved methodology to true-up transmission costs allocated to REAs on an individual basis.

75. The Commission accepts Fortis's submissions concerning the accuracy of its load settlement data and its explanations of the variances between BRPC's metered energy consumption data and the load settlement data. The Commission agrees that load settlement agents "must follow a rigorous data validation process, which ensures that accurate and standardized data, in accordance with AUC Rule 021: *Settlement System Code Rules*."<sup>57</sup> In particular, load settlement agents are responsible for allocating energy consumption, line losses and unaccounted-for energy to the sites for which they act as a load settlement agent. As noted by Fortis, this is because the "ISO tariff uses delivered energy at the point of delivery substation to calculate the amounts payable under its tariff"<sup>58</sup> and not the energy consumed by individual customers of BRPC.

76. The Commission also denies AFREA's request that the Commission direct Fortis to include a five-year history of forecast and actual results in all future annual filings.

77. A five-year history is not yet possible for this dataset because 2022 is the first year in which Fortis disaggregated TACDA true-up amounts by individual REAs. Additionally, the

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<sup>55</sup> Exhibit 28576-X0075, BRPC written argument, PDF pages 3-4, paragraph 8.

<sup>56</sup> Exhibit 28576-X0072, Fortis rebuttal evidence, PDF page 3, paragraph 4.

<sup>57</sup> Exhibit 28576-X0077, Fortis written argument, PDF page 8, paragraph 20.

<sup>58</sup> Exhibit 28576-X0072, Fortis rebuttal evidence, PDF page 4, paragraph 7.

forecast and actual results will be included, on a yearly basis, in Fortis’s annual rates application. Consequently, a five-year history may be constructed in the future by any interested party by using Fortis’s previous annual filings. If AFREA has concerns after reviewing this information in future proceedings, it may choose to request to participate so that it may “further explore, explain, and understand how Fortis applies its historical data to allocate current costs.”<sup>59</sup>

78. The issue of the costs of obtaining actual coincident peak and non-coincident peak data for each REA is outside the scope of this proceeding. However, if this remains a concern for AFREA and BRPC, the Commission encourages Fortis, AFREA, and other REAs to work together to explore this issue.

## 8 Order

79. It is hereby ordered that:

- (1) FortisAlberta Inc.’s 2024 distribution rates including the system access service rates, options and riders, approved in Decision 28576-D01-2023, shall continue to apply.
- (2) FortisAlberta Inc.’s terms and conditions for electric distribution service are approved on a final basis.

Dated on March 27, 2024.

### Alberta Utilities Commission

*(original signed by)*

Kristi Sebalj  
Vice-Chair

*(original signed by)*

Michael Arthur  
Commission Member

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<sup>59</sup> Exhibit 28576-X0074, Submissions AFREA to AUC, PDF page 3, paragraph 11.

## Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
FortisAlberta Inc. (Fortis)
Consumers' Coalition of Alberta (CCA)
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP
Battle River Power Coop (BRPC) CITO Energy Law LLP
Alberta Federation of Rural Electrification Associations (AFREA) Shores Jardine LLP

<p>Alberta Utilities Commission</p> <p>Commission panel</p> <p style="padding-left: 40px;">K. Sebalj, Vice-Chair</p> <p style="padding-left: 40px;">M. Arthur, Commission Member</p> <p>Commission staff</p> <p style="padding-left: 40px;">A. Marshall (Commission counsel)</p> <p style="padding-left: 40px;">C. Young</p> <p style="padding-left: 40px;">N. Morter</p> <p style="padding-left: 40px;">C. Robertshaw</p>
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## 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. As shown in Table 1 above, Fortis included \$0.25 million as a Y factor to recover the billing relief credits provided to eligible customers. Fortis confirmed that this amount does not include any costs specific to the administration of the EBRP, as it was able to manage the associated costs within revenues provided for the 2023 cost-of-service year. Given this confirmation, the Commission approves the \$0.25 million Y factor related to the EBRP. In future applications dealing with EBRP amounts, the Commission directs Fortis to provide a detailed breakdown of costs by applicable evacuation area, the average length of time of the mandatory evacuation, as well as the corresponding billing-relief credit by rate class..... paragraph 23
2. The Commission has reviewed Fortis’s schedules showing the calculation of the 2024 K-bar funding and the 2022 K-bar true-up and finds that its methodology for escalating retirements as part of its 2024 K-bar calculation does not align with the methodology set out in Decision 27388-D01-2023. Decision 27388-D01-2023 directs utilities to “calculate the notional amount for retirements in each year by using the approved I factor to convert the average retirements to that year’s dollars.” Fortis escalated its retirements for 2024 onwards by the I factor but escalated 2018-2022 retirements by I-X and customer growth. Fortis did so because it interpreted the direction to convert the average 2018-2022 capital additions to 2023 dollars using the approved I-X index and customer growth escalator to mean that retirements should also be escalated by I-X and customer growth. The Commission disagrees with Fortis’s interpretation and finds that retirements should be escalated by I factor only for all years. The Commission directs Fortis to use this method in calculating K-bar amounts during the PBR3 plan. .... paragraph 26
3. In its IR responses, Fortis provided revised K-bar calculations in which it escalated retirements by I factor only, resulting in a K-bar of \$30.55 million. Although this is not materially different from Fortis’s applied-for K-bar of \$30.63 million, the Commission finds that consistency in the K-bar calculations will aid it in its review of future K-bar calculations. Therefore, the Commission approves the K-bar value of \$30.55 million provided in Fortis’s IR responses. Given that Fortis did not provide updated rate calculations to reflect this change, and that the difference in K-bar values is minimal, the Commission directs Fortis to incorporate this change to K-bar as a true-up when it completes the 2024 K-bar true-up for the 2024 actual I factor and cost of debt true-up. The Commission also approves Fortis’s 2022 K-bar true-up refund of \$0.48 million. .... paragraph 27
4. The Commission considers that variances from forecasts such as those described by Fortis for 2022 may reasonably be expected for current purposes. Such occurrences do not generally call into question the predictive value of the methodology used to generate such forecasts, and Fortis is directed to continue to provide information on any variances from forecast to actual billing determinants by rate class and to identify the cause of variances larger than five per cent on an annual basis..... paragraph 36
5. As discussed in Section 4.2, under the provisions of the PBR3 plan, the I factor has been approved on an interim basis and will be trued up in a future proceeding to reflect the

actual experienced inflation in 2024. However, the Commission recognizes that it may be impractical to true up MILs upon approval of the final I factor and directs Fortis to comment on this matter in its next PBR rate adjustment application. .... paragraph 64