



Power for the People

HIGHLIGHTS



Power for the People

Highlights of the report and recommendations for the Minister of Energy, Government of Alberta

Retail Market Review Committee
September 2012

Acknowledgements

The Retail Market Review Committee greatly appreciates the time and effort of all the people who put together written submissions, made the time to give presentations to the committee and responded to requests for follow-up information.

About This Document

These highlights summarize a larger report called *Power for the People: Report and Recommendations for the Minister of Energy, Government of Alberta*. The complete *Power for the People* report contains 9 chapters, a glossary and a number of appendices, including a timeline that sets out the history of Alberta's electricity industry. It also includes detailed charts and tables presenting the Retail Market Review Committee's analyses of issues and summarizing input from consumers and industry stakeholders.

This highlights document covers all 9 chapters of the complete report, but chapter contents are sometimes combined to accommodate the summary format.

About the Retail Market Review

Supplementary material about the review, including stakeholder submissions and archived audio recordings of the Retail Market Review Committee's consultations, can be accessed at www.rmrc.ca.

Contents

The Retail Market Review	3
The Context	3
The Committee’s Assignment	4
Electricity Restructuring and Deregulation	4
The Value of Electricity and Electricity Choices	5
The Default Rate: Its Present, Past and Purpose	6
At a Crossroads	7
An Overview	7
Energy Services: The Retail Markets of the Future	8
The Retail Market	9
Electricity Rates and Prices	9
Assessing Market Competition	11
What Consumers Need	12
Information	12
Representation	12
Protection	13
Consultation Results	14
Findings from the Consumer Survey	14
Selected Feedback from Industry Stakeholders	15
Opinions about Having a Default Rate	15
Opinions about Phasing Out the Default Rate	15
Opinions about Replacing the Current Default Rate	15
Consumer Education and Awareness	16
The Retail Market and Regulated Non-Energy Charges	17
A Summary of Recommendations	18
Default Rate	18
General Market Improvements	19
Detailed Recommendations from the Retail Market Review Committee	20



The Retail Market Review

The Context

Alberta restructured its electricity industry in 1996 with the implementation of the *Electric Utilities Act*. Electricity generation was deregulated to introduce competition and encourage innovation that could provide Albertans with a reliable, economical supply of power. Retail competition was established in 2001.

Opening the retail electricity market to competition marked the start of a new era and paved the way for energy efficiency, conservation, innovation and choice—all the benefits that unrestrained competitive markets are proven to deliver. For the first time, Alberta consumers had the power to choose who they would buy their power from and under what terms, and to select benefits and features that met their personal needs.

One in three Albertans now buy power from a retail electricity provider they've selected themselves. By default, Albertans who have not chosen a retailer buy power directly from their electricity distribution company (or this company's designated agent) at a default rate

that goes up and down as wholesale prices fluctuate. Not everyone is comfortable with price fluctuations (volatility), but the nature of the commodity makes volatility a characteristic of all electricity markets.

In the winter of 2011–2012, a combination of severe weather and conditions in the market system exposed Albertans to higher than normal prices. High prices are always a concern, especially for seniors and other Albertans with few resources and fixed incomes.

The Government of Alberta took steps to address this concern.

On February 23, 2012, Premier Alison Redford announced a four-point plan to address the volatility and costs associated with electricity. The plan called for an independent review of the default rate option in order to reduce electricity volatility and costs for consumers. The Retail Market Review Committee was established as a result.

The Committee's Assignment

The mandate and terms of reference of the Retail Market Review Committee are set out in Ministerial Order 32/2012. The committee's task was to analyze the default rate and determine if it was still needed, and if so, how it should be designed and delivered, and what its purpose should be. The committee's review of these questions is timely. The regulation that governs the current default rate is due to expire in 2014, and the province's electricity market is at a crossroads. As stakeholders noted during the course of the review, what happens in the retail market affects the success and stability of the wholesale market, and vice versa. The fate of the default rate—whether it continues indefinitely, or is reconfigured, or removed—will determine the province's electricity future.

As part of its review, the Retail Market Review Committee examined a number of issues related to retail market competition and the electricity market as a whole. The committee explored the question "Is the retail market competitive?" and concluded that indeed it was. It addressed issues that affect electricity consumers, looking at measures to ensure reliable electricity service,

provide choices, ensure access and protect vulnerable Albertans. It examined how both energy and non-energy charges paid by electricity consumers are determined, and concluded that the current freeze on non-energy charges should be lifted as soon as possible.

The Retail Market Review Committee took an analytical, consultative approach to its assignment, considering every side of every issue, and weighing opinions for and against. Committee members reviewed literature about deregulated electricity markets in North America and around the world. They met with and gathered information from the expert agencies that form the backbone of Alberta's electricity industry. They consulted with and questioned internationally recognized electricity experts. Over a period of several weeks, they heard presentations and reviewed submissions from stakeholders representing all aspects of the province's electricity marketplace. And they surveyed Alberta consumers to get a sense of their ideas, opinions and concerns about electricity.

Electricity Restructuring and Deregulation

In Alberta, as in other North American jurisdictions, the electricity industry evolved as a regulated monopoly dominated by large, vertically integrated utilities.¹

In a vertically integrated system, utility companies are responsible for the generation, transmission, distribution (local delivery) and retailing of electricity in defined service areas. When Alberta's communities were small and isolated, electricity system coordination was most easily accomplished through single companies that owned all the facilities. Vertical integration and close coordination

of generation, transmission and distribution increased the safety and reliability of the system.

In a regulated monopoly, utility companies have the exclusive right and the obligation to serve specific areas. A monopoly approach avoids the duplication of facilities. For example, it is not efficient to have two sets of electricity wires owned by two different companies when a single line minimizes capital costs and facilitates economies of scale.

By the 1970s, regulators, consumers and utility companies in many parts of the world began to reconsider regulated, monopoly-based vertical integration. Many jurisdictions realized that continuing to regulate markets that could be

¹ Alberta's electricity system has always been a mixture of privately owned and municipally owned facilities. No part of the system has ever been owned by the Alberta government.

competitive stifled innovation and created unnecessary regulatory costs.

By the 1990s, the Alberta government and many stakeholders and consumers began to believe that vertically integrated electricity utilities operating in service territory monopolies could not keep pace with technological change or address issues such as increasing globalization. In response to these and other concerns, the Minister of Energy directed the Department of Energy to work with stakeholders to develop a new structure for the province's electricity industry. A multi-stakeholder committee of utility companies, independent power producers, regulators and consumers examined the issues, and in 1994, recommended electricity restructuring based on the model of the bid-offer power pools in Australia and the United Kingdom.

The *Electric Utilities Act*, which came into force on January 1, 1996, was the result of this work. The *Electric Utilities Act* restructured the electricity system and laid the foundation for a fully competitive wholesale electricity market. It also streamlined regulation in the transmission and distribution components of the industry—natural monopolies that remain fully regulated.

Retail competition was introduced in 2001, giving consumers the option of buying their power from competitive retailers who offer a broad selection of service agreements, including contracts that guarantee stable prices. It gave consumers the power to shop for electricity, choose a retail electricity provider, and select the price, terms and range of services that best met their needs.

Market research commissioned by the Retail Market Review Committee shows that even now, more than a decade after electricity consumers have had the power of choice, many people still don't really understand how the electricity system works and the options available to them. Thinking about electricity as something people shop for—like they shop for the best mortgage rate for their homes or the best cellphone plan for their families—is still an alien concept. The result is that most Albertans have not exercised their power to choose a retail electricity supplier and continue to buy electricity at the default rate.

The Value of Electricity and Electricity Choices

Consumers who choose not to shop for electricity pay a regulated default rate that is set through lengthy, complex, time-consuming and costly proceedings. Regulation has a cost, which is passed on to consumers.

In a competitive market—without the burden of regulation—competition sparks innovation and drives prices down. Consumers benefit from market competition coordinated by “the invisible hand,” without government intervention.

“Better services at lower prices” is the promise of vibrant competitive markets. Competition forces markets to become more efficient, cost-effective and creative. Over the long term, a competitive market is the best for consumers: it provides a greater diversity of products, and at the same time, ensures the lowest possible prices. A competitive market is also best for industry: competitive electricity prices make it possible for Alberta businesses to compete in international markets and to maintain economic growth that creates jobs and prosperity for Albertans.

The Default Rate: Its Present, Past and Purpose

When Alberta's retail electricity market opened to competition in 2001, consumers who did not actively choose a retail electricity provider continued to buy power from the provider that had supplied them before industry restructuring—that is, from the distribution system owner responsible for their region of the province. Consumers bought power from this provider by default (because they had not chosen a different provider), and paid a regulated default rate.

The design of the default rate and the costs it can include are specified in legislation and approved by the appropriate regulator.

- The Alberta Utilities Commission approves the default rate offered by Epcor in the City of Edmonton and in the FortisAlberta service area, by Direct Energy in the Atco service area and by Enmax in the City of Calgary.
- In Cardston, Ponoka, Crowsnest Pass, Lethbridge, Red Deer and Fort Macleod, city (or municipal) councils approve the default rate.
- For members of rural electrification associations in rural Alberta, the default rate is approved by the board of directors of the local REA.

Regulatory approval of the default rate relates to costs that can be passed on to customers: these include reasonable, “prudently incurred” costs for service delivery, risk premiums and a fair profit margin. Today default rates that are regulated by the Alberta Utilities Commission are approved on the basis of an energy price-setting plan (EPSP) submitted by each distribution system owner. The EPSP sets out how energy will be procured for customers and how the rates paid by customers will be calculated. The cost of electricity, the cost of procurement, administrative costs and risk premiums are included in the rates paid by customers. Because energy price-setting plans are owner specific, and because a number of regulatory bodies are involved, consumers in different parts of the province pay a different default rate.

The term “regulated” is often interpreted to mean “under government control.” This is not the case. The RRO is a government-mandated rate available to consumers by default, but the price is not set by government.

The design of the default rate has undergone a number of changes since 2001. The current default rate—called the regulated rate option, or RRO—changes monthly in response to changing prices in the forward market for electricity. The rate design strikes a balance between two sometimes conflicting objectives: consumers' desire for price stability and their desire for low prices. The RRO uses one-month-forward hedges that expose consumers to the ups and downs of the real-time electricity market while still providing (in normal circumstances) reasonable prices that are not locked in for extensive periods. Longer-term hedges could reduce the month-to-month fluctuations of electricity prices, but predictability and stability come with a cost. Locked-in prices can be higher than what consumers might otherwise pay.

The default rate does not offer the most stable or the lowest prices that might be possible, and it is not designed to meet a diversity of consumer expectations and needs. Consumers who prefer a different balance than what the RRO offers have the option of buying their power from competitive retailers who offer a broad selection of service agreements, including contracts that guarantee stable prices at rates that can be lower than the default rate.

The existence of a default rate and the government's stated desire for a competitive market pose a number of competing objectives. The Retail Market Review Committee believes that any default rate—however well designed—is a government intervention into the competitive retail marketplace. When Alberta's retail electricity market was first opened, this intervention was appropriate and necessary. Now it presents a barrier to the entry of additional retailers: it creates the reality and the perception of regulatory uncertainty, and it creates

a rate that competes with products and services in the marketplace.

At a Crossroads

More than a decade after restructuring, the electricity industry is at a crossroads. The retail market has matured. Consumers have choices. Competition is beginning to blossom, and standard industry indexes rate the retail market as a relative success compared to others in North America. The single most significant factor affecting the development of the competitive retail market is the existence of a default rate. Many Albertans still pay the default rate—even though there are other retail options that might better suit their needs.

The *Regulated Rate Option Regulation*, which governs the current default rate, is due to expire in 2014. While the

underlying policy will not change, the key question for government decision-makers is this: What should be done with the current default rate? This was the key question underlying the Retail Market Review Committee's assignment. The committee recommends that retiring the default rate and replacing it with "provider of last resort" service is in the best interest of Albertans.

Ultimately, the Alberta government must decide what will be done with the default rate. If the goal is to provide Albertans with benefits that can only come from a competitive market, the government must take bold steps and stay the course toward full competition. If it chooses not to do so, it must clearly signal its intentions and change direction. Decisive action is the only option. Uncertainty is bad for everyone. And half-measures serve no one well.

An Overview

Today—in addition to rural electrification associations and municipalities—three large and nine small retailers serve the province, offering small consumers about 50 different electricity offerings. More than 20 companies compete to sell power to large commercial and industrial consumers.

Alberta's large retailers are Direct Energy, Enmax Energy and Just Energy. Each of these retailers is or has been associated with one of Alberta's major electricity distribution utilities: Direct Energy with Atco Electric, Enmax Energy with Enmax Corporation (Calgary) and Just Energy with Epcor Distribution and Transmission (Edmonton).

Alberta's nine small retailers are associated with the Calgary-based company Utilitynet, which also provides billing services to self-retailers.

Retail electricity providers sell power to 1.6 million sites in Alberta. These include the following:

- 1.3 million households (81% of the total sites)
- 107,000 farms (7%)
- 179,000 small businesses (11%)
- 17,000 large industrial sites (1%)

The average home in Alberta uses about 600 kilowatt hours of electricity per month. The average Alberta farm uses 1,800 kilowatt hours per month.

Homes and farms account for 88% of the sites served by retailers, but only 16% of the electricity sold in the province. Industrial customers (including oil sands companies) account for 64% of Alberta's electricity demand, with the result that electricity prices and economic growth are closely linked. When the economy expands and industry is booming, increased demand for electricity drives up prices.

Energy Services: The Retail Markets of the Future

For much of the past century, the electric industry lumped all consumers together into what it called the “load” on the electric system. That approach worked well while the industry was maturing and costs were declining. Today it is common knowledge that people actually purchase energy services. Recognizing the service-oriented nature of the electricity industry can benefit everyone.

The term “energy services” covers a variety of functions relating to consumer wants and needs, including services relating to price-risk management, appliance purchase and maintenance, energy usage management, reliability, power quality assurance and other value-added services related to billing and payment or customer convenience. The interaction of the retail market (sale of electricity) and the energy service market sparks the emergence of new services and pricing options that will allow consumers to better manage their electricity use and increase the value received.

Unlike the energy commodity market, the energy services market includes substitutes for electricity. More substitutes become economically attractive as the price of electricity rises, and as decisions are made to unbundle services. Unbundling allows consumers to pick and choose according to their preferences, and permits consumers to choose and pay for just those services that they desire. It gives the power of information and choice to consumers and leads to more efficient consumption decisions. For example, an appropriate level of unbundling allows all consumers to substitute premises-based services for electricity services. Such investments could be for on-site generation (small power plants), equipment that allows fuel switching as energy prices change, appliances that offer greater efficiency of use, energy storage devices, or load monitoring and control equipment.

In order for consumers to take advantage of such opportunities, regulatory authorities must recognize that the unbundling of services may have a benefit. Many energy services are not in direct competition with utility services; rather, they are complementary services that add value for the consumer through risk management or aggregation.

New technologies and new institutional arrangements may lead to new services that consumers prefer. Since individual preferences vary, this means that some consumers will demand premium-level services, while others will demand basic or low-cost services. This creates inherent efficiencies: diversity in the demand for a product, and complementarities in its use, can lower costs for everyone.

Innovation is the key to achieving “better service at lower cost.”

Innovation in energy services has already begun. Restructuring is an innovation made possible by changes in Alberta’s *Electric Utility Act*. For one segment of residential consumers, understanding that the ability to buy power from someone other than the incumbent utility is a very valuable change. Some customers would readily pay a premium for that right. Further, the residential electricity market in Alberta has developed a range of consumer options, including weekly billing, paperless accounts, dual fuel contracts and the ability to enter into contracts over the phone or through the Internet. Other innovations will be possible when customers have access to new technologies, including smart meters, usage data portals that enable new offerings, transmission investments to facilitate green power development and advanced telecommunications to help consumers engage with retail energy suppliers and local distribution utilities.

Consumers with choices often find value in a new service where they previously only received a commodity. Policy-makers must recognize that the electricity industry is rapidly transforming from a focus on power production and delivery (the electric commodity) to a focus on new energy services that precisely target and satisfy consumer needs and preferences. Legislators and regulators may see fit to tighten certain rules and relax others in order to facilitate innovation and entrepreneurship.

Making the effort is worthwhile.



The Retail Market

Electricity Rates and Prices

Retailers who wish to sell electricity in Alberta must meet a number of requirements:

- They must be licensed by Service Alberta (under the *Fair Trading Act*) and post a bond of up to \$1 million.
- They must abide by the province's *Code of Conduct Regulation*, which outlines strict rules with regard to issues such as customer confidentiality, fair treatment and the marketing of retail services.
- They must post security deposits with the Alberta Electric System Operator (in order to buy electricity from the power pool) and with the Natural Gas Exchange or other brokerages (in order to purchase financial hedges on their contracts for supply).
- In order to arrange the delivery of electricity to their customers, they must post security deposits with each distribution company (for using their wires).

Electricity retailers buy electricity on behalf of their customers, and produce customer bills based on meter readings. Meter readings show the amount of electricity a customer used in a particular month. Meter information is collected by electricity distribution companies, which

invoice retailers for the electricity their customers use and for related transmission and distribution costs. Retailers recover electricity costs and the costs of transmission and distribution from their customers. These costs are itemized on each customer's monthly power bill. Retailers also bill their customers for the services they provide, including the cost of buying energy on the customer's behalf and the cost of producing the customer's bill and providing customer service. Billing and customer service-related costs appear as administration charges on the customer's monthly bill.

Customers' power bills are generated by their retail electricity providers based on inputs from a number of sources.

A typical bill includes a number of components, which can be classified as energy and non-energy charges. The latter include the cost of transmission and distribution, local access fees, administration fees and adjustments such as rate riders and balancing pool credits or debits.

Three factors determine the energy charges on customers' bills:

- the total amount of electricity they have used, as recorded by their power meter
- the per-kilowatt-hour rate charged by the customers' default electricity providers or established in customers' retail service agreements
- the load profile used to allocate energy consumption over the individual hours in the billing period

Province wide, energy charges constitute approximately 60% of a residential customer's monthly power bill. Energy charges for customers who buy power at the default rate constitute between 45% and 66% of their monthly bill, depending on where they live.

Energy delivery charges include two components: transmission and distribution. Transmission charges cover the cost of moving electric energy from generating facilities through high-voltage transmission lines to distribution utility substation transformers, where it can be stepped down to usable levels. They also cover capital costs and the costs of operating and maintaining the provincial transmission system. Transmission rates are approved and regulated by the Alberta Utilities Commission.

Distribution charges cover the cost of moving electric energy from high-voltage substation transformers through local, lower-voltage lines that carry electricity to customers' meters. They also cover the cost of operating and maintaining local distribution systems, building new services, connecting and disconnecting customers, responding to power outages, maintaining customer information systems and providing meter-reading services. Distribution rates are approved by the appropriate regulator.¹

Higher power bills in some parts of the province are mainly driven by higher distribution charges, which result from differences in population density. In Atco's northern Alberta service area, for example, low customer density means that distribution costs constitute a greater proportion of the bill than in densely populated urban areas such as the Edmonton and Calgary regions served by Epcor and Enmax.

In 2011, a London Economics study commissioned by the Utilities Consumer Advocate, the Independent Power Producers Society of Alberta and the Industrial Power Consumers Association of Alberta concluded that, when compared fairly, Alberta's delivered price of electricity (including generation, transmission and distribution costs) was competitive with prices in other parts of Canada. The study found that Alberta has maintained competitive prices in spite of having limited access to cheaper forms of generation such as the abundant hydro resources in Quebec, Manitoba and British Columbia.

Electricity prices are volatile by nature. They change constantly and rapidly—from hour to hour and minute to minute—in response to market forces and other factors. The natural volatility of electricity prices means that consumers can see fluctuations on their monthly bills. Over the long term, when hourly wholesale prices are averaged over a period of months, price volatility is smoothed out. In the short term, however, hour-to-hour volatility is a fact of the market.

For consumers who pay the default RRO rate for electricity, a number of factors determine the price they pay in any given month. The non-energy component of the RRO, for the most part, is approved under regulation and passed through to customers. The energy component of the RRO depends on forward market prices for the given month, which are driven by the expected level and volatility of on- and off-peak wholesale prices for the next month. Forward market prices depend on expected wholesale prices, which in turn depend on forecasts of supply and demand.

A number of factors can lead to unexpected changes in electricity supply and electricity prices. Transmission lines can fail, cutting off imports or access to supply from internal generating units. Generating units can experience problems that cause them to shut down without warning. Extreme weather (lightning strikes, ice storms and high winds) can damage power lines and cause outages. Transmission constraints, consumer demand at particular times of the day and the year, and the presence or absence of wind power also affect supply and prices.

¹ Distribution rates are regulated by the Alberta Utilities Commission, by local municipal governments or by the boards of directors of rural electrification associations.

Assessing Market Competition

The retail market for residential and small customers in Alberta had a slow start. It was opened to competition in 2001, just after the government had imposed a price ceiling on rates, in late 2000. The government's price cap was intended to protect small customers from a rate shock. Instead, it likely did long-term harm: it signalled to potential new retailers that the Alberta government was willing to interfere in the market without warning. As of 2004, there was only one retail electricity provider offering two products; as of April 2005, only 7% of eligible small customers had moved away from the default rate.

Since 2006, retail competition has continued to develop and net switching rates are now much higher. As of July 2012, consumers could choose from 12 retail electricity providers who offer about 50 different products, and one-third of residential consumers have selected options other than the default rate.

The Retail Market Review Committee believes that Alberta's retail electricity market is workably competitive, and that it would be even more so if regulatory uncertainty was eliminated. In reaching this conclusion, the committee reviewed recent studies on market competitiveness and looked at standard competitive measures such as concentration ratios and the Herfindahl-Hirschman Index. It examined market attributes such as entry by new suppliers and the availability of new products and services. It identified and assessed barriers to entry for new suppliers, barriers to market growth, and barriers for consumers, including the ease of switching, the cost of switching (including the cost of gathering enough information to make a choice) and non-cost barriers such as uncertainty about the quality of a product or service or unfamiliarity with a supplier's reputation.

The Retail Market Review Committee heard from many stakeholders and organizations who believe that Alberta's retail electricity market is competitive or reasonably competitive; it heard from other stakeholders who do not share this view. Of those stakeholders who expressed a direct opinion over the course of committee consultations, seven said that the market was competitive or reasonably competitive; three said it was not very competitive. Stakeholders who believe the market is not competitive think that Alberta should wait until it becomes more competitive before phasing out the RRO as a default rate. This is problematic if the RRO itself is a significant barrier to entry that is preventing further competition.

The Market Surveillance Administrator believes that the recent emergence of several small retailers demonstrates that the retail market for residential, farm and small commercial customers is competitive.

What Consumers Need

Over the course of its review, the Retail Market Review Committee explored ways of representing consumers' interests and ensuring that all Albertans receive appropriate service quality and price protection. The committee's analyses and recommendations are based on its telephone survey of Alberta consumers, on input provided by industry experts and stakeholders, and on lessons learned from other jurisdictions.

Information

The committee identified a need to provide consumers with more choices that respond to their individual needs and preferences. It also identified a need to provide consumers with education and resources that will increase consumer confidence and give people information that they really need or want to know.

The committee's market research identified a number of key messages that should be included in consumer education and awareness campaigns. A critical message is that selling and delivering electricity are separate functions, and that switching to a retail electricity provider does not affect the level of service or service reliability a customer gets from its regulated distribution utility. Other important messages are where to find trusted information about available choices and how to find tools for comparing different products and service agreements.

The committee's research showed that consumers get information across multiple channels, with the Internet being the most important. Specialized campaigns should target low-income households, caseworkers who work one-on-one with vulnerable Albertans and customers whose geographic location means they have limited electricity choices.

Representation

Given that the electricity industry has regulated and unregulated sectors, the question of representing consumers' interests must be divided into two parts.

In the regulated electricity transmission and distribution sector, efficiency and customer satisfaction are addressed by regulating the price and quality of products and services. For those aspects of the industry that remain regulated, stakeholders and expert organizations strongly agreed that the Alberta Utilities Commission is best positioned to represent consumers' interests in approving costs, associated rates and quality of service levels. The Retail Market Review Committee concurs with this view, and recommends that the current freeze on non-energy charges be lifted as soon as possible.

In the unregulated wholesale and retail electricity sector, competition gives strong incentives for firms to be efficient, keep costs low, and develop products and services that customers want.

When the wholesale market opened to competition, new organizations² were created to support it and charged with mandates to create a market that was "fair, efficient and openly competitive." To date, the retail market has not had the same level of institutional support as the wholesale market. No organization was created initially to oversee or promote its development. It is time to give the Market Surveillance Administrator and the Utilities Consumer Advocate a clear mandate to develop retail competition and the authority to deliver it.

² These were the Market Surveillance Administrator and what is now the Alberta Electric System Operator.

Protection

The Retail Market Review Committee's consultations with stakeholders uncovered numerous and broad-ranging definitions of who is a vulnerable Albertan. The committee proposes the following definition:

Low-income people and those facing temporary financial difficulties are vulnerable. People who are unaware of or unable to evaluate options are vulnerable, as are those who currently cannot exercise choice in the part of the province where they live.

The committee's review examined the adequacy of service, cost protection and social support for vulnerable Albertans.

Access to adequate electricity services can be thought of in two ways. First, it can mean access to reliable physical service and to accurate, timely meter reading and reasonable service response times: these aspects of the industry are regulated by the Alberta Utilities Commission, which sets reliability and service quality standards for owners of electricity and gas distribution utilities. Second, it can refer to consumers' ability to pay for electricity services.

Most stakeholders who shared their views with the Retail Market Review Committee declined comment, did not offer a direct answer or felt they were not sufficiently informed to say whether adequate services and supports are in place for vulnerable Albertans. Stakeholders who directly answered the committee's question felt that all Albertans—including vulnerable Albertans—receive adequate electricity services.

Unlike other provinces, Alberta does not have a history of using subsidized prices to provide a safety net for low-income consumers. Stakeholders who shared their views with the Retail Market Review Committee were almost unanimous in their opinion that income issues should continue to be handled through social support programs, not through the creation of a subsidized electricity rate.

Two findings emerged from the Retail Market Review Committee's discussions with the providers of provincial support programs—first, that some supports could be improved, and second, that better coordination between agencies would be beneficial in some areas.

Nearly half of the stakeholders who provided submissions to the committee said they lacked the knowledge and expertise to comment on the adequacy of social services support. Three stakeholder groups believed that adequate social support was available; two groups said that social support was not adequate.

The Retail Market Review Committee feels it cannot comment on whether existing social services provide adequate financial support. That is a broader social policy issue to be addressed by government.



Consultation Results

Findings from the Consumer Survey

In May 2012, the Retail Market Review Committee conducted a province-wide telephone survey to gather information about Alberta consumers' opinions and concerns about electricity. The survey showed that eight in 10 Albertans (81%) believe that being able to choose a retail electricity provider is important. Most Albertans (85%) are aware that they can choose what company provides the electricity they use. Most Albertans (59%) feel they have enough information to choose the company they buy their electricity from, but 40% say they do not understand how to compare and evaluate their options.

Almost 60% of Albertans say the government should ensure that residential customers have access to a regulated price. This suggests a desire for stable monthly pricing that allows people to budget accordingly. However, Albertans' desire for longer-term, fixed-price arrangements is in conflict with their willingness to pay a premium to guarantee fixed prices.

Although 52% of Albertans say they prefer a fixed annual price to one that changes monthly or quarterly, only 13% say they are willing to pay a premium for it. And 50% of Albertans say they prefer paying the lowest possible price, even if that means their bill changes frequently.

The disconnect between Albertans' desire for price stability and their desire for low prices suggests the need for additional information about what the retail market can provide, in contrast to what government can provide. The government's "regulated rate option" is not intended to substitute for stable pricing options that are available in the market today.

Selected Feedback from Industry Stakeholders¹

In April 2012, the Retail Market Review Committee invited industry stakeholders to offer their views on 22 questions derived from Ministerial Order 32/2012, which guided the committee's work. Twenty-six organizations forwarded written submissions and/or made presentations at sessions held in Edmonton and Calgary in May and June.

Opinions about Having a Default Rate

Stakeholders were divided on the need to have a default rate. Differences of opinion existed within stakeholder organizations as well as across groups.

Stakeholders offered a variety of opinions on the purpose of a default rate, and many groups believed that a default rate served more than one purpose. Most groups suggested that one purpose of a default rate was to provide an option for consumers who do not wish to sign retail contracts.

Most stakeholder groups did not offer a direct answer to the question of whether it was appropriate for a default rate to compete with competitive retail offers. Only two stakeholder groups clearly stated that competition between the default rate and market offerings was appropriate.

Opinions about Phasing Out the Default Rate

Stakeholders identified a range of benefits that would ensue if the default rate were eliminated. These included market-based electricity prices, reductions in price volatility, reductions in regulatory and administrative costs, and increased competition. Benefits associated with increased competition included innovation, greater consumer awareness, increased product and company choices, and removal of market barriers.

Stakeholder groups also noted several negative consequences of discontinuing the current regulated rate option (RRO). One concern was that vulnerable Albertans and consumers with poor credit history might be unable to obtain electricity services. Another was that phasing out the RRO could be perceived as forcing customers to switch to competitive contracts, and that such action could face significant backlash from the public. Other concerns included the possible negative impact on the wholesale market and the absence of a method for allocating customers who have not selected a retailer.

Stakeholders approached the question of when the default rate should be phased out in a number of ways. Some offered suggestions about the desired state of the market before the RRO was phased out, including acceptable switching rates. Some offered specific suggestions about an appropriate time period and processes for phasing out the current RRO. Time estimates ranged from 10 months to five years.

Opinions about Replacing the Current Default Rate

Stakeholders offered a variety of ideas about the design of a default rate and the principles that should be used. The design principles proposed by many stakeholders reflected the duality of purpose that characterized the early days of electricity restructuring, when the design of the default rate was intended to (1) promote the continued growth of the competitive retail market and (2) provide appropriate price protection for consumers. Some stakeholders proposed that these two principles were mutually exclusive; some felt that an appropriate balance could be found.

In general, stakeholders believed that a default rate should be designed in accordance with the principles of a fair, efficient and openly competitive market. The rate should be fair, transparent, standardized and easy for consumers to understand.

¹ Stakeholder views about protecting vulnerable Albertans and about the competitiveness of the retail market are mentioned in the "The Retail Market" section of this highlights document.

Most stakeholders believed that the default rate should be delivered by distribution system owners. Some suggested that this role could be performed by retailers or other parties.

Most stakeholders who offered an opinion agreed that the default rate should include all reasonable costs incurred in providing default rate services, including risk margins and a fair profit margin.

A number of stakeholders noted the importance of policy stability for a successful electricity market.

See the complete *Power for the People* report for detailed tables summarizing stakeholders' views about appropriate design, procurement and delivery mechanisms and options.

Consumer Access and Representation

Stakeholders expressed a range of opinions about which customer groups should have access to a default rate. In general, stakeholders who addressed the question in terms of electricity usage felt that the default rate should serve consumers of less than 250,000 kilowatt hours per year. (A number of groups suggested that the current threshold might be too high.) Stakeholders who addressed the question in terms of customer classes suggested that only residential and farm customers should have access to the default rate.

In general, stakeholders who commented on default rates for large commercial and industrial consumers held that these consumers were commercially sophisticated: they could manage their energy costs through the wholesale and retail markets and did not need a default rate.

Stakeholders offered a variety of opinions on the question of how to ensure that customers are effectively represented when rates are set. Many expressed support for the organizations that currently play a role in regulation, rate-setting and market monitoring, namely, the Alberta Utilities Commission, the Market Surveillance Administrator and the Utilities Consumer Advocate.

Naming the Default Rate

In general, stakeholders advocated a user-friendly name that clearly conveys the purpose of the rate. Some suggested that the name should emphasize the default or non-contract-based aspect of the rate. Some recommended that the name should indicate that the rate is a transition that customers default to if they do not select a competitive rate.

Several stakeholder groups felt the word “regulated” should not be included in the name because it confuses customers about what the rate is for and how it is set. Calling the rate “regulated” suggests government involvement when the reality is that only the procurement process, profit margins, risk margins and service costs are regulated: the energy component, which constitutes most of the bill, reflects the deregulated wholesale electricity price. “Regulated” implies a degree of oversight and traditional cost-of-service utility pricing, and may discourage customers from seeking “unregulated” competitive contracts.

Consumer Education and Awareness

In general, stakeholders acknowledged that much has been done in the area of consumer education, but that more work is needed.

Most stakeholders proposed that the Utilities Consumer Advocate was the most appropriate organization to provide consumer education. They acknowledged the good work the UCA has already done to give Albertans information and tools that explain the retail market and the various aspects of an electricity bill.

A number of stakeholder groups expressed a need for “electricity literacy” programs that explain the market in an unbiased, easy-to-understand way, and that reduce consumer uncertainty about electricity issues.

A few stakeholder groups suggested what a reasonable consumer education budget might be. Estimates ranged from \$300,000 to \$3 million per year.

Stakeholders offered a range of opinions on who should pay for consumer education and awareness programs. Some suggested that the Alberta government or government agencies should cover program costs. Some suggested that costs could be shared among various groups. Some suggested that consumers should pay.

The Retail Market and Regulated Non-Energy Charges

A number of stakeholders expressed concern about the cost and impact of new transmission infrastructure. A number stated that transmission and distribution charges can be a source of concern for consumers.

Stakeholders offered a range of comments about billing and administration costs and rate riders. One group noted that most customers do not understand these costs or why they change from month to month. Other groups observed that rate riders could be a source of irritation for consumers and should be avoided.

A number of stakeholders commented on how the Government of Alberta's freeze of distribution, transmission, rate riders and administrative charges would affect their operations and the industry as a whole, noting that a prolonged freeze had the potential to impose hardship and expose customers to rate shock.



A Summary of Recommendations

The Retail Market Review Committee's recommendations reflect its best effort to address two high-level principles and concerns—(1) seeing that consumers benefit from retail competition and (2) moving Alberta forward to a more innovative, efficient and dynamic retail market. In all its recommendations, the committee embraces the view that a fully competitive retail electricity market is the best path forward. The innovation and choices that competition brings will ensure “power for the people” in the decades to come.

The committee's key recommendations are highlighted below. For specific, detailed recommendations, see p. 20.

Default Rate

- End regulatory uncertainty. The committee believes the RRO should be phased out as soon as possible. The timing of the phase-out will depend on how long it takes to remove barriers to entry and switching, but should not be delayed beyond 2015.
- Create a clear separation between the physical function of delivering electricity via wires and the retail function of offering rates and services. Regulated wire owners should not be in the competitive retail business.
- Establish a new backstop service—the “provider of last resort”—to ensure that customers will always get power even if their retailer goes out of business.

General Market Improvements

Regardless what the government decides to do with the default rate, implement the following changes to improve the competitiveness of the retail market and help consumers realize the benefits of competition.

- Continue to remove barriers that unnecessarily increase the cost for new retailers to enter Alberta's market.
- Reduce barriers to switching by educating consumers. Give customers the information and tools they need to compare different options and how these options will affect their power bills. Eliminate electricity contract specifications that do not apply to non-electricity products sold in Alberta.
- Vulnerable Albertans—people with lower incomes and people who are less able to choose, for whatever reason—should be assisted. Assistance should continue to be provided through existing social programs, not through a new, subsidized electricity rate.
- Empower agencies to do the jobs they need to do. The Alberta Utilities Commission needs to be able to create enforceable rules governing billing and market access. The Market Surveillance Administrator needs clear guidance on its role in promoting competition in the retail market. The Utilities Consumer Advocate needs a different mandate that emphasizes its role in developing retail competition.

Alberta is at a crossroads.

The province can move forward and make changes to create a more vibrant retail electricity market that offers customers not just lower prices, but a completely different set of innovative services. The committee believes that a bold move forward is in the best interests of Albertans.

Detailed Recommendations from the Retail Market Review Committee

The recommendations listed here are included in the complete Power for the People report and reflect the topic headings used in that document. Analyses that support the committee's recommendations can be found in Chapters 6 to 9 of the complete report.

Recommendations 1 through 32 can be implemented regardless what decision the Alberta government makes on the default rate. Recommendations 33 through 41 pertain to the default rate.

Recommendations for General Market Improvements and for Supporting Consumers

I. Increasing Competitiveness

A. Reduce barriers to entry for competitive retailers.

1. Standardize disconnection, enrolment and de-enrolment practices across the province. Amend the *Distribution Tariff Regulation* to enable the Alberta Utilities Commission to examine and standardize disconnection, enrolment and de-enrolment practices across the province. Enable the commission to investigate wrong enrolments and mitigate their effect on retailers and customers.
2. Address the lack of standardization and inequity that current security and prudential requirements impose on retail electricity providers, and align these requirements with the actual risks they are intended to address. Amend the *Distribution Tariff Regulation* to give the Alberta Utilities Commission the authority it needs to develop and implement province-wide standards for the security deposits that distribution utilities require from retail electricity providers.
3. Match the Alberta Electric System Operator's financial security requirements for retailers to actual risks. Encourage the AESO to continue and complete its work with retailers on these requirements.
4. Level the playing field for retail electricity marketing, and stop affiliated retailers' preferential access to RRO customers' billing envelopes. Either all retail electricity providers should be able to include marketing materials in the RRO billing envelope, or none should. Amend the *Code of Conduct Regulation* to give the Market Surveillance Administrator and the Alberta Utilities Commission clear authority to rule and intervene in matters related to using the RRO billing envelope for marketing purposes.
5. Lower Service Alberta's security licence and bond fees for retail electricity providers to bring them in line with the requirements for natural gas retailers. Ensure that the requirements are consistent with the size and nature of each retailer's business.

B. Reduce barriers to growth and competitiveness.

6. Improve system data processes, and standardize data system-related business practices, processes and information transfer protocols across the province. Provide clear regulatory direction that empowers the Alberta Utilities Commission to set new, province-wide data standards and processes and to address outstanding system settlement code-related issues related to metering, meter-reading accuracy, meter data verification and the timeliness of final load settlement calculations.
7. Ensure data accuracy. Enable the Alberta Utilities Commission to create a standardized verification process and strengthen the Alberta Electric System Operator's role in ensuring data accuracy. Ensure that retailers can verify their invoices from the AESO to reconcile AESO charges with customer meter readings.
8. Set standards and performance incentives for accurate and timely meter reading at both the customer and transmission level.
 - a) Encourage the Alberta Utilities Commission to consider creating performance-driven rewards or penalties for meeting standards of accuracy in reading customers' meters
 - b) Ensure that the Alberta Utilities Commission is empowered to set standards of performance for metering accuracy at the transmission level and able to consider creating performance-driven rewards or penalties for meeting these standards.

C. Reduce barriers to consumer switching.

9. Address consumer concerns that switching could reduce the reliability of their electricity service. Provide consumers with the information they need to be confident about their electricity-related decisions.
 - a) Ensure, through education programs, that consumers understand the clear separation between the physical delivery of energy and retail electricity service.

- b) Amend the *Code of Conduct Regulation* to eliminate co-branding between affiliated retailers and owners of distribution systems.
- c) Bring Service Alberta requirements for electricity service agreements into line with those for other retail goods and services. Eliminate the current requirement for extra warning and disclosure statements for electricity service agreements.

10. Eliminate location-based barriers to consumer choice. All Albertans must have access to choice.
 - a) Clarify the Alberta Utilities Commission's authority to enforce the Tariff Billing Code and ensure that municipalities and rural electrification associations comply with code requirements.
 - b) Work with Alberta Agriculture and Rural Development to clarify the roles and responsibilities of rural electrification associations with regard to consumers in their service areas.
11. Amend the *Regulated Rate Option Regulation* to standardize Service Alberta cancellation rules for retail service agreements. The same rules should apply across all marketing channels.

II. Providing Better Information and Resources for Consumers

D. Give consumers more billing options.

12. Provide retail electricity providers with the flexibility they need to develop bills and billing options that best serve their customers.
 - a) Create a task force to study the use of prepaid electricity in other jurisdictions and make recommendations on how to implement prepaid electricity as a retail option in Alberta. Prepaid billing is currently prohibited under *Service Alberta's Energy Marketing and Residential Sub-metering Regulation*.

- b) Amend Section 4 of the *Billing Regulation* to provide retail electricity providers with the flexibility to decide how best to display required information on their customers' bills.

E. Design and deliver a coordinated, multi-year education and awareness campaign.

- 13. Designate the Utilities Consumer Advocate to lead the campaign and coordinate effort from relevant government and industry agencies.
- 14. Design the campaign as a multi-year project that runs until such time as government introduces changes to default service.
- 15. Consider allocating a budget of \$1 to \$3 million per year during the transition period. The exact funding amount, funding allocations and sources should be determined by the Alberta Department of Energy in consultation with relevant agencies and stakeholders.
- 16. Fund the campaign through both private and public sources, including the Balancing Pool. Invite retailers to contribute to education and awareness programs where a clear benefit to them exists; in any other market, such programs would be normal business expenses.
- 17. Target specific segments of the campaign at low-income households, caseworkers who work one-on-one with vulnerable Albertans and consumers who currently have limited choices in the part of the province where they live.
- 18. Use a variety of communications channels, including the Internet.
- 19. Include appropriate key messages, including the fact that selling and delivering electricity are separate functions, and that switching to a retail electricity provider does not affect the level of service or reliability customers get from their regulated distribution utility. Other key messages should focus on where to find information about choices and how to find tools for comparing different products and agreements.

- 20. Explain how non-energy charges are determined, why some aspects vary from month to month, and why transmission and distribution infrastructure costs, in general, are currently increasing. (The Retail Market Review Committee's consumer survey found that more Albertans were concerned about the cost of transmission and distribution than about the cost of energy.)

- 21. Work with transmission owners and the Alberta Electric System Operator to develop joint messaging that provides perspective on how infrastructure changes have happened historically and what they have cost.

- 22. Provide information about value-added products and services in Alberta's emerging energy services market and about the progress of electricity retail market development.

F. Provide online information.

- 23. Create and maintain a website entirely devoted to the retail market and customer choice.

- 24. Provide consumers with a gateway to information sources and customizable tools for easy comparisons. (An Alberta version of the Texas "Power to Choose" website and Norway's consumer agency website merit consideration.)

- 25. Explore online delivery options.

- a) Consider offering a government-administered website that gives consumers a sense of confidence about the offers they find there.
- b) Explore the model adopted in the U.K., where privately owned consumer choice websites are provided by organizations that are sanctioned by the government as trustworthy sources and financed through commissions from retailers.

III. Representing Consumers' Interests

G. Empower agencies to do the job they need to do.

- 26.** Strengthen and affirm the mandate of the Utilities Consumer Advocate to promote and support a “fair, efficient and openly competitive” retail electricity market.
- Work with Service Alberta and other Government of Alberta ministries to amend legislation and create the supporting structures needed to establish the Office of the Utilities Consumer Advocate as an independent agency like the Alberta Electric System Operator and the Market Surveillance Administrator.
 - Change the governance structure of the Utilities Consumer Advocate. Replace the current advisory board with a governance board of directors made up of members at large.
 - While the Utilities Consumer Advocate would continue to represent Alberta consumers' interests in regulatory interventions, the Alberta Utilities Commission is urged to consider revising Rule 22. The committee feels that the AUC is best placed to determine which organizations or associations should have resources made available to allow proper representation of their position in the public process.
- 27.** Strengthen and affirm the mandate of the Market Surveillance Administrator to promote and support a “fair, efficient and openly competitive” retail electricity market that provides all Albertans with access to choice. Develop a new regulation that identifies a “fair, efficient, and openly competitive” mandate for the retail market and that clearly identifies the Market Surveillance Administrator's role and authority.
- 28.** Embrace best practices that support continuous improvement in Alberta's retail market. Designate the Utilities Consumer Advocate, in association with industry, government and related agencies, to coordinate an annual conference focused on retail best practices and emerging innovations.

IV. Protecting Vulnerable Albertans

H. Implement protective measures.

- 29.** Encourage and support the cross-government coordination of service protection agencies to ensure that people do not fall through the cracks.
- Consider establishing an oversight committee that spans current social support programs and coordinates the sharing of information about electricity-related support and services.
 - Work with other government departments to review electricity-related support programs and ensure they are meeting people's needs.
 - Consider expanding the support available to people who end up with a “provider of last resort” because they have not paid their bills. The “once in a life time” support payments for help with utility bills seem inadequate.
- 30.** Support the Utilities Consumer Advocate's efforts to ensure that social agencies get the information they need about new and emerging electricity issues. (For example, if prepaid electricity is approved, the UCA should inform relevant agencies. The UCA should also provide resource materials and coordinate the dissemination of these materials to support organizations and institutions.)
- 31.** Consider creating a special energy fund that could supplement the utility bill-related assistance currently available through the Ministry of Seniors and through Alberta Works and AISH. The fund could be supported through a minor reduction in the Balancing Pool credit that all customers currently receive.
- 32.** Lift the freeze on non-energy charges as soon as possible. If legitimate rate increases have accumulated during the freeze period, phase these in over a reasonable period of time so that consumers are not exposed to a rate shock when the freeze is lifted. The phase-in period should be equal to the time the freeze has been in place.

The Default Rate

- 33.** Establish regulations that specify how the provider of last resort is selected, the duration of the service by the provider, terms of service for customers, responsibility for oversight and customer protection measures.
- 34.** Set a date certain that phases out the regulated rate as soon as possible, but no later than 2015, allowing sufficient time for barriers to entry and switching to be addressed and for the provider of last resort service to be set up.
- 35.** Amend Sections 103, 104 and 105 of the *Electric Utilities Act* to remove the obligations of owners of electric distribution systems to prepare a regulated rate tariff, act as a regulated rate provider for any customers, or to assign another entity to carry out those functions.
- 36.** Amend the *Regulated Rate Option Regulation* to ensure a smooth transition for customers who are still on the regulated rate tariff by leaving them with their existing regulated rate providers (as defined in the *Electric Utilities Act*) when the default rate is phased out.
- 37.** If a distribution system owner that currently provides the RRO (directly or through an affiliated retailer) no longer wishes to serve RRO customers, the owner must give notice to the Minister of Energy prior to the phase-out of the existing default rate. The current provider must find a replacement RRO provider that does want to serve customers. It must inform its customers about other available retail options and about any pending transfers in time for them to choose for themselves if they do not wish to have their current provider choose a retailer for them. The Department of Energy must set notice periods and determine what information must be provided to customers.
- 38.** If a distribution system owner has a retail affiliate, customers in the owner's service area cannot simply be transferred to the affiliate without notice when the default rate is phased out. The Department of Energy must determine what information is provided to customers. It must also ensure that the regulated rate provider gives customers notice about their options.
- 39.** Municipalities and rural electrification associations that own distribution systems and that do not serve customers outside their service areas may provide default service as they choose, as long as they comply with the Alberta Utility Commission's rules set out in the Tariff Billing Code and the System Settlement Code, and with rules regarding enrolment, de-enrolment and disconnection practices.
- 40.** Amend the *Regulated Rate Option Regulation* to extend the window on forward procurements from the current limit of 45 days ahead to a longer period of three-to-six months ahead. Standardize the procurement mechanism to require that all regulated rate providers use NGX auctions, as Epcor does.
- 41.** Amend the *Regulated Rate Option Regulation* to reduce the consumption limit for RRO eligibility to 50 megawatt hours per year.

