



Network cost allocation in Alberta

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- The results and views expressed herein do not necessarily represent the corporate views of the Market Surveillance Administrator (MSA)

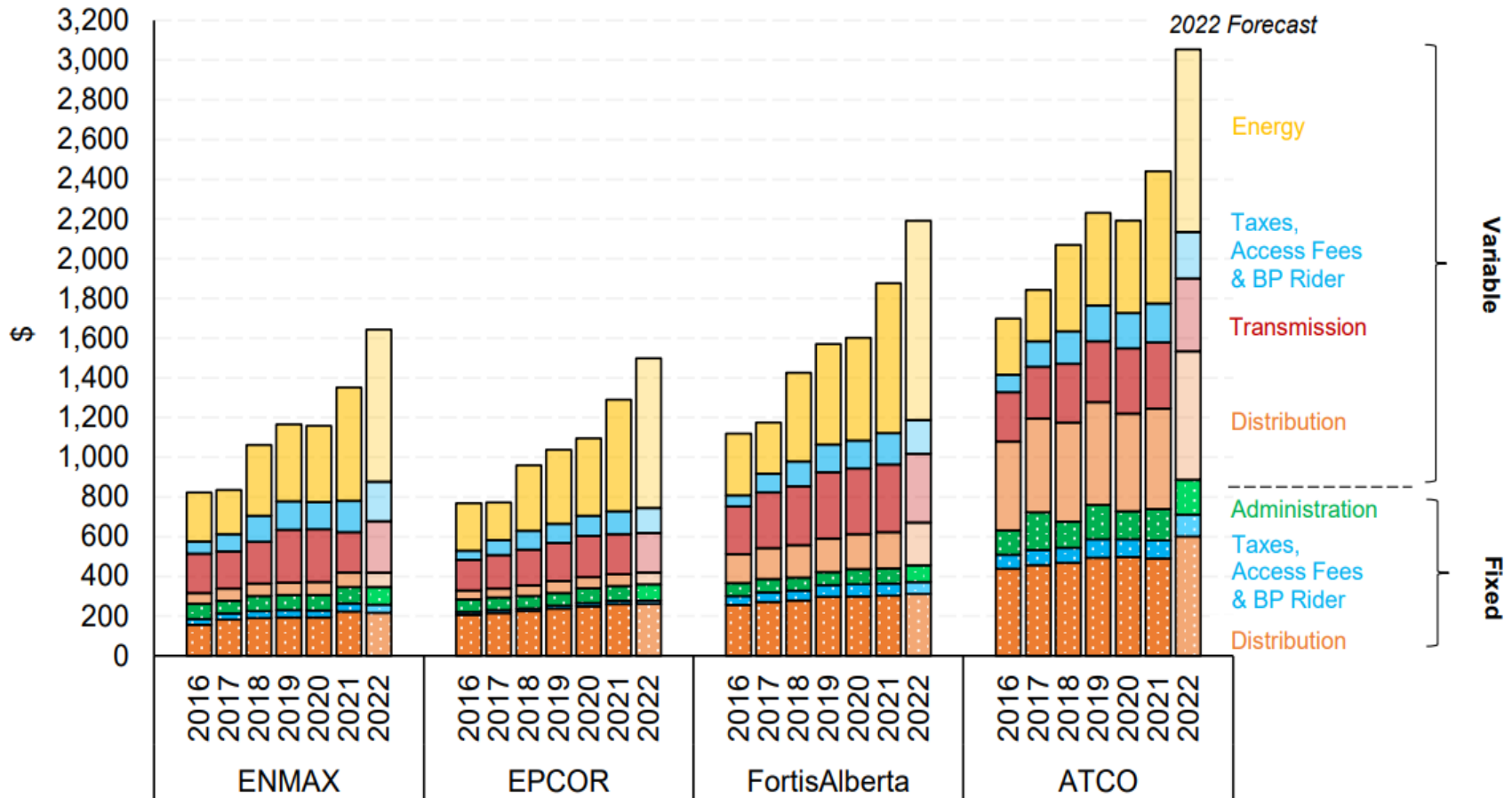
Overview and summary

- Economic efficiency has long been considered in network cost allocation (among other regulatory principles and objectives)
- Against a backdrop of rapid technological change — e.g., the nature of consumption, increasing consumer heterogeneity, and production of information — the economic efficiency implications of network cost allocation has never been more important
- Main comments today:
 - More empirical work should be done in this respect in Canada
 - The MSA does not have a corporate view on this matter
- Some consequences?
 - Inefficiency raises total costs
 - Slower transition to greater electrification
- Example of cost allocation in Alberta's electricity market

Alberta's electricity market

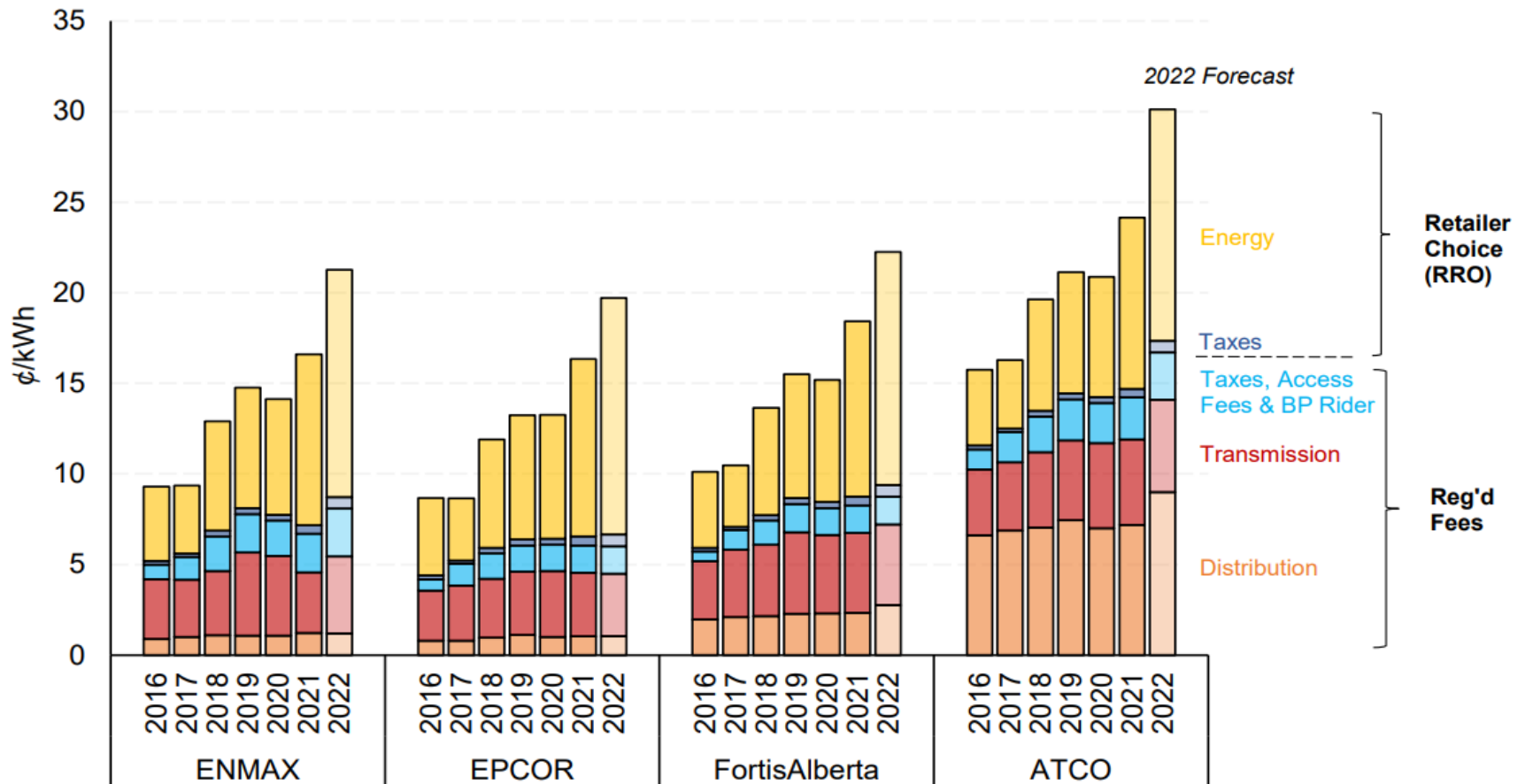
- Transmission and distribution are regulated
 - Natural monopoly, policy objectives, service standards
 - Cost allocation is determined by regulated tariffs
- Generation costs are not regulated
 - Hourly market and related forward market
 - Investment decisions made by for-profit entities
- Residential retail is partially competitive and partially regulated
 - For energy, consumers may choose between competitive offers and a regulated / default rate (Regulated Rate Option or RRO)
 - For network costs, retailers flow through regulated costs set out in distribution tariffs irrespective of a consumer's energy arrangements
 - Interaction of transmission and distribution tariffs

Fixed & variable billing components, residential RRO bills, 2016 to 2022



Source: Figure 24, Market Surveillance Administrator, [Supplemental Retail Market Report for Q1 2022](#), May 13, 2022.

Components of variable cost, residential RRO customers, 2016 to 2022



Source: Figure 21, Market Surveillance Administrator, [Supplemental Retail Market Report for Q1 2022](#), May 13, 2022.

Observations and conclusions

- It is likely that consumers face variable charges that exceed the underlying variable cost
 - There is disagreement about the implications for economic inefficiency
 - Changing importance through time
- The magnitudes of the various effects are unclear, hence the value of more empirical analysis
 - Compared to some other jurisdictions, there is relatively little public data available in Canada or data available to researchers outside of formal regulatory proceedings