

Alberta's Electricity System: A Balanced and Fair Playing Field for All Customers

Issue

The cost of transmission and distribution of electricity to customers has created disparity in pricing across Alberta. Extremely high power bills in some parts of the province are mainly driven by higher distribution charges. Distribution costs are higher in rural and northern service areas, with consumers in these areas paying up to 400% more for distribution services compared to consumers in urban service areas. Moreover, with customers in Saskatchewan and British Columbia paying significantly lower electricity rates than customers in most of Alberta, Alberta's overall competitiveness and ability to attract business is further impeded.

Background

Electricity industry structure in Alberta

In Alberta, electrical generation and retailing make up the de-regulated sectors of the market while transmission and distribution are government regulated sectors. Because electricity delivery is a fully regulated service, the Alberta Utilities Commission (AUC) reviews and approves the rates to ensure they are fair and reasonable for Alberta customers.³¹ According to its mandate, the AUC considers and protects the social, economic and environmental interests of Alberta where competitive forces do not.³²

However, depending on where you live or operate a business in Alberta, there is disparity in these charges: residential, farm and commercial customers in rural and northern areas pay significantly higher electricity costs than those in more urban areas. Charges for distribution are higher in rural and northern areas because of the low population density and longer distances between consumer sites. A distribution system that serves rural areas costs more than those serving urban areas because there are longer distances between customers; the utility must build, operate and maintain more poles, wires and facilities to serve each customer; and there are fewer customers on systems in rural areas sharing the costs.³³

As shown in figures A and B, distribution and transmission charges are highest in ATCO's service area, followed by FortisAlberta's service area. ATCO primarily serves northern Alberta and parts of eastern Alberta. FortisAlberta serves the south and western more rural areas of Alberta. (A recent analysis shows that electricity prices in Alberta in 2021 were more than double the Alberta power pool price seen in 2020, and costs will remain elevated in 2022.)³⁴

Breaking down the charges: Transmission and Distribution

Energy delivery charges in Alberta include two components: transmission and distribution (in addition to rate riders). *Transmission* charges cover the cost of moving electric energy from generating facilities through high-voltage transmission lines to the distribution system. Charges are

³¹ Alberta Utilities Commission <http://www.auc.ab.ca/pages/distribution-rates.aspx>

³² Alberta Utilities Commission <http://www.auc.ab.ca/Pages/review-process-steps.aspx>

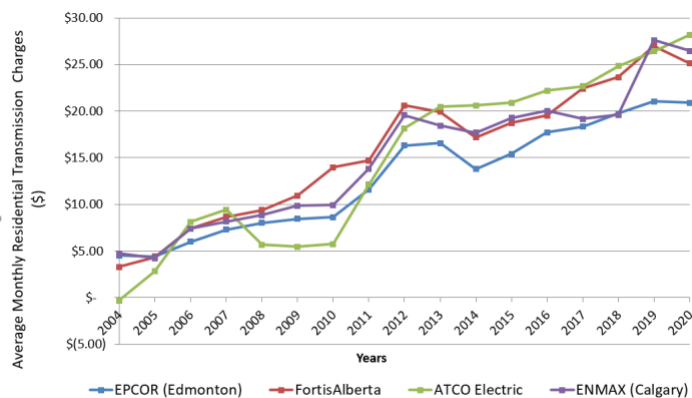
³³ Alberta Utilities Commission <http://www.auc.ab.ca/pages/distribution-rates.aspx>

³⁴ Edmonton Journal, Feb. 2, 2022, Chris Varcoe: Kenney signals return to gas rebates as prices take off

based on the electricity used by the consumer, and make up between 14% to 20% of a customer's total bill. In 2020, monthly transmission charges paid by the average residential customer with 600kWh of consumption ranged from \$20.88 (EPCOR's service area) to \$28.19 (ATCO's service area).³⁵

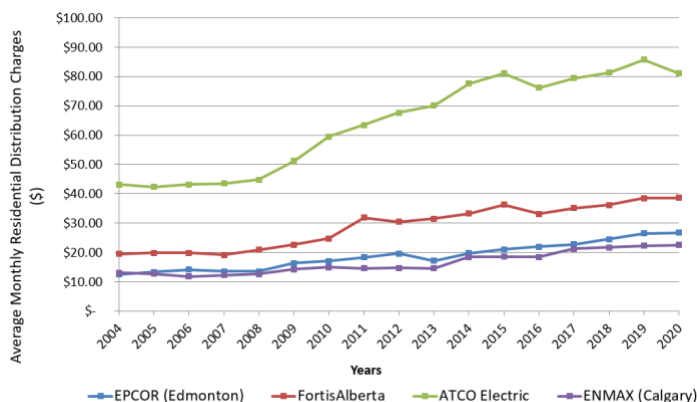
Distribution charges cover the cost of moving electric energy from substation transformers through local, lower-voltage lines that carry electricity to a customer's meter. These charges make up between 22% and 47% of a customer's total bill. In 2020, monthly distribution charges paid by the average residential consumer with 600kWh consumption ranged from \$22.55 (ENMAX's service area) to \$81.11 (ATCO's service area).³⁶ Consumers in the ATCO zone can pay twice as much for distribution compared to rural consumers in the ForisAlberta zone, and nearly 400% more than residential consumers in Calgary.

Figure A - Average monthly transmission charges for residential RRO customers, by service area



Source: Compiled by the Utilities Consumer Advocate based on data provided by the Alberta Utilities Commission and Alberta Department of Energy.

Figure B - Average monthly distribution charges for residential RRO customers, by service area



Source: Compiled by the Utilities Consumer Advocate based on data provided by the Alberta Utilities Commission and Alberta Department of Energy.

³⁵ Alberta Consumer's Advocate <https://ucahelps.alberta.ca/electricity-transmission-and-distribution-charges.aspx>

³⁶ Ibid.

Alberta's current electrical system creates further economic penalties for Alberta ratepayers

While disparities in electricity rates exist within Alberta, much lower electrical transmission and distribution rates in both Saskatchewan and British Columbia are also impacting Alberta's ability to attract and retain business. Alberta business owners with property in the two neighbouring provinces report paying much lower rates in Saskatchewan and BC.³⁷ While this impedes economic growth and development in rural communities along provincial borders, it also puts Alberta at a competitive disadvantage.

In addition, as electricity costs increase, consumers are exploring other alternatives. According to a recent AUC study, an increasing number of industrial facilities have been installing their own generation sources and individual Albertans and small businesses are doing the same.³⁸ With fewer customers to share costs of the electrical system, remaining electricity customers, particularly those in areas of low customer density, may be further penalized by the even higher rates. Further, as Alberta moves towards electrifying the grid, and as demand for electricity puts even greater pressure on the electricity system, the result will mean even greater disparities in pricing.

Conclusion

Higher electricity rates in certain areas of the province don't just threaten industry and businesses in that region but impact all of Alberta. Alberta's North, for example, has an abundance of resources with high global demand. Its economic contributions to the whole of Alberta and Canada are significant: the area contains much of Alberta's natural resources, specifically, 100% of the oil sands deposits, 86% of forests, both conventional oil and natural gas production, about 28% of Alberta's total farm area,³⁹ as well as the associated opportunities in value-added and emerging technologies. The ripple effect of economic impacts from higher electricity costs faced by these northern industrial operations cannot be ignored.

An electrical system that creates a fair playing field for the delivery of affordable electricity to Alberta homes, farms, businesses and industry is critical not only for all Albertans' well-being but for the strength of Alberta's economy and overall competitiveness. Further consideration must be taken to developing such a system that does not penalize communities and business owners based on their geographic location – one that protects the social, economic and environmental interests of *all* Albertans.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Create a tax incentive for utility distribution companies operating outside of Alberta's two metropolitan areas with the mandate to pass the savings along to customers through reduced distribution delivery rates.

³⁷ AUMA <https://auma.ca/advocacy-services/resolutions/resolutions-index/disparity-transmission-and-distribution-charges-across-alberta>

³⁸ AUC http://www.auc.ab.ca/regulatory_documents/Consultations/DistributionGenerationReport.pdf p. 8, 39.

³⁹ Northern Alberta Development Committee (NADC)