



Report to the Minister

For the Year Ending December 31, 2012

March 15, 2013



March 15, 2013

The Honourable Ken Hughes
Minister of Energy
323 Legislative Building
1088 – 97 Avenue
Edmonton, Alberta T5K 2B6

Dear Minister:

RE: Annual Report for 2012

It is my pleasure to submit the Annual Report of the Market Surveillance Administrator for the year ending December 31, 2012. The Report is provided to you pursuant to subsection 38(1) of the Alberta Utilities Commission Act.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Harry Chandler', is written over a light blue horizontal line.

Harry Chandler
Market Surveillance Administrator

cc: Willie Grieve, Chair Alberta Utilities Commission

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1 Introduction

This Annual Report for 2012 is pursuant to paragraph 38(1) of the *Alberta Utilities Commission Act* that directs the Market Surveillance Administrator (MSA) to provide the Minister of Energy with an annual update “(a) reporting on its activities in the fiscal year, and (b) containing its audited financial statements for the fiscal year”. The MSA’s fiscal year coincides with the calendar year.

The first part of the Report summarizes the activities of the MSA during the year, all of which is described in more detail and available to stakeholders through individual documents on the MSA website at <http://www.albertamsa.ca/> (and cited in the Report’s Reference section). The final section presents the MSA’s financial state of affairs in 2012 and a copy of our year end financial statements audited by PricewaterhouseCoopers LLP.

As set out in the *Alberta Utilities Commission Act*, the MSA has a broad mandate to promote the fair, efficient and openly competitive operation of the electricity and natural gas markets. Aspects of the MSA’s mandate include monitoring and assessing the conduct of the various entities involved in the markets and monitoring and assessing market structures and arrangements that may affect competition. The MSA is empowered to publish guidelines to support the fair, efficient and openly competitive operation of these markets. Pursuant to subsection 20.4(4) of the *Electric Utilities Act* it may also file an objection with the Alberta Utilities Commission to a market rule on various grounds, including an adverse effect on the structure and performance of the electricity market. In its independent discretion the MSA may also investigate and seek financial penalties or other remedies for contraventions of the market rules, the Alberta Reliability Standards, or the *Electric Utilities Act* through adjudication by the Alberta Utilities Commission.

During 2012 MSA activities touched several aspects of this mandate. Highlights of these activities are summarized below under the headings Market Monitoring, Promotion and Enforcement of FEOC, and Rules and Reliability Standards Compliance.

2 Market Monitoring

On July 9, 2012 the Alberta Electric System Operator (AESO) found it necessary to shed 200 MW of firm load due to a supply shortfall in order to ensure the continued safe and reliable operation of the AIES. As reported in November 2012, the MSA found no evidence of wrongdoing by any of the parties, neither regarding compliance with the market rules and reliability standards, nor with respect to allegations of manipulation of the market or collusion among participants. The circumstances that led to the controlled action initiated by the AESO were a combination of peak summer demand for electricity and generator equipment issues caused by high temperatures. There are always lessons to be learned from critical events such as this one, consequently the MSA offered some suggestions to the AESO in this regard. A summary of the event, the MSA’s findings and a backgrounder were published on the MSA’s website.

A major initiative undertaken by the MSA during 2012 was a thorough assessment of competition within the wholesale electricity market. In consultation with an industry advisory group, the MSA established the scope of work and framework of analysis for this initiative. The assessment looked back on the previous 12 years and established key benchmarks to be used for the measurement of competitiveness and efficiency of the market. In total eight reports were published on the MSA website, including assessments of efficiency and survey work to ascertain investor sentiment. The final *State of the Market Report* was published in December 2012 and found the wholesale electricity market met a high standard which we describe as 'effective competition' and that wholesale prices over the medium term have been no higher than necessary to secure the adequate supply of electricity to consumers. The MSA also set out its expectations in regard to how the market will evolve and intends to test these and the general state of competition in another thorough assessment planned for 2015.

3 Promotion and Enforcement of FEOC

The legal standard and focus of virtually all the MSA's work is FEOC, the fair, efficient and openly competitive operation of the market. Section 6 of the *Electric Utilities Act* directs that: "Market participants are to conduct themselves in a manner that supports the fair, efficient and openly competitive operation of the market." Alberta Regulation 159/2009, the *Fair, Efficient and Open Competition Regulation* provides greater specificity on the meaning of this provision in particular areas.

2012 saw the resolution of a FEOC-related investigation of TransAlta Energy Marketing Corp. based upon the MSA's identification of anti-competitive behaviour relating to interconnection scheduling practices. In Decision 2012-182, the AUC approved a settlement agreement reached between the MSA and TransAlta Energy Marketing Corp. in the amount of \$370,073.34. Subsequently in Decision 2012-325, TransAlta Energy Marketing Corp. was ordered to pay intervener costs in relation to the initial proceeding in the amount of \$33,571.29

Over the course of 2012 the MSA has conducted other investigations that may or may not find their way to the Commission depending on their merits once the investigations are completed. The MSA has a policy of not releasing information on current investigations.

In addition to enforcement of FEOC, the MSA also makes efforts to be proactive by identifying situations that may undermine FEOC or to respond to requests for clarification from market participants. During 2012, seven individual pieces of feedback were given in areas relating to Power Purchase Arrangements, outage records, trading and provision of retailer information. The MSA also continues to be proactive in assessing whether market rules are sufficient to discourage anti-competitive conduct or otherwise undermine fair, efficient and open competition. In this regard the MSA has expressed concerns that competition might be compromised by the release of certain market data. The MSA is consulting with stakeholders on whether the information could be masked or delayed such that the MSA's concerns around competition are resolved and any competition benefits associated with the release of the same data are maintained.

4 Rules and Reliability Standards Compliance

The MSA plays a role in ensuring the good functioning of the Alberta Integrated Electric System by promoting compliance with the ISO Rules and the Alberta Reliability Standards. Detailed results for 2012 are the subject of a separate published report, *Compliance Review 2012* which was published on February 20, 2013. Of note is the ongoing growth in matters addressed which continues to be driven in large measure by self-reports by market participants. This follows from our approach to promote effective internal compliance programs such that participants implement effective procedures and tools to self-identify issues and receive favorable treatment or otherwise risk having the non-compliance identified by the AESO or the MSA. The MSA issued 64 notices of specified penalty regarding ISO rules matters totaling \$107,250 as compared to 35 notices of specified penalty totaling \$69,750 in 2011. The MSA issued a further 7 notices of specified penalty in relation to Alberta Reliability Standards matters totaling \$35,000. None of the notices of penalty issued in 2012 were disputed or remained unpaid.

5 Financial Statements

During 2012 MSA expenditures came in under budget by approximately \$500,000. As required by the AUCA, the MSA only recognizes revenues to the extent required to match expenses in order that no profit or loss results in a fiscal year. Any excess of revenues received over actual expenditures is deferred and recognized in future periods. A more conservative assumption was employed for legal and consulting services expenses in the course of the MSA's 2013 budget planning.

The audited statements of the MSA for the year ended December 31, 2012 follow. The format of the financial statements reflects the first-time adoption of new accounting standards for not-for-profit organizations announced in late 2010 by the Canadian Accounting Standards Board. The MSA has not utilized any transitional exemptions on the adoption of the new standards, accordingly, there were no adjustments to the financial statements.

Market Surveillance Administrator

**Financial Statements
Year Ended December 31, 2012**



March 8, 2013

Independent Auditor's Report

To Management of the Market Surveillance Administrator

We have audited the accompanying financial statements of the Market Surveillance Administrator, which comprise the balance sheet as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of operations and cash flows for the years ended December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
Suite 3100, 111 – 5th Avenue SW, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Market Surveillance Administration as at December 31, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants

Market Surveillance Administrator Balance Sheet as at	Dec 31 2012	Dec 31 2011	Jan 1 2011
	\$	\$	\$
ASSETS			
Current Assets			
Cash	744,101	654,145	1,035,760
Accounts receivable	225,702	-	13,660
Prepaid expenses and deposits	57,404	50,844	50,819
	<u>1,027,207</u>	<u>704,989</u>	<u>1,100,239</u>
Capital Assets (note 4)	<u>49,216</u>	<u>53,233</u>	<u>42,894</u>
	<u><u>1,076,423</u></u>	<u><u>758,222</u></u>	<u><u>1,143,133</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	365,392	423,492	821,076
Deferred revenue (note 5)	711,031	334,730	322,057
	<u>1,076,423</u>	<u>758,222</u>	<u>1,143,133</u>
EQUITY (note 1)	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>1,076,423</u></u>	<u><u>758,222</u></u>	<u><u>1,143,133</u></u>

The accompanying notes are an integral part of these financial statements.

On behalf of the corporation:

/Harry Chandler/
Harry Chandler
Market Surveillance Administrator

/Eeva White/
Eeva White
Legal Counsel & Secretary

Market Surveillance Administrator		
Statement of Operations		
For the Year Ended December 31		
	2012	2011
	\$	\$
Revenue		
Alberta Electric System Operator (note 5)	3,021,823	2,848,766
Total Revenue	3,021,823	2,848,766
Expenses		
Salaries and benefits	2,246,671	1,960,520
Consultants, legal & audit	340,060	427,364
Operating, office and administrative	410,753	415,401
Amortization	24,339	25,481
Total Expenses	3,021,823	2,848,766
Net Earnings	-	-

The accompanying notes are an integral part of these financial statements.

Market Surveillance Administrator Statement of Cash Flows For the Year Ended December 31	2012	2011
	\$	\$
Cash provided by (used for):		
Operations		
Net earnings	-	-
Item not involving cash:		
Amortization	24,339	25,481
Change in non-cash operating items:		
(Increase) / decrease in accounts receivable	(225,702)	13,660
Increase in prepaid expenses and deposits	(6,560)	(25)
Decrease in accounts payable and accrued liabilities	(58,100)	(397,584)
Increase in deferred revenue	376,301	12,673
	<u>110,278</u>	<u>(345,795)</u>
Investing		
Expenditures on capital assets	<u>(20,322)</u>	<u>(35,820)</u>
(Decrease) Increase in cash	89,956	(381,615)
Cash, beginning of the period	<u>654,145</u>	<u>1,035,760</u>
Cash, end of the period	<u><u>744,101</u></u>	<u><u>654,145</u></u>

The accompanying notes are an integral part of these financial statements.

Market Surveillance Administrator

Notes to the Financial Statements

For the Year Ended December 31, 2012

1 Nature of Operations

The Market Surveillance Administrator ("MSA") was incorporated as an independent, stand-alone entity on June 1, 2003 under the Electric Utilities Act of the Province of Alberta.

The business and affairs of the Market Surveillance Administrator corporation are overseen by an individual appointed as Market Surveillance Administrator by the Minister of Energy for the Province of Alberta.

As of January 1, 2008, the Market Surveillance Administrator was continued under the Alberta Utilities Commission Act with a broad mandate including surveillance, investigation, and enforcement to help ensure fair, efficient, and openly competitive electricity and retail natural gas markets in Alberta. The Market Surveillance Administrator is responsible for keeping a close eye on the behaviour of market participants and the overall performance of the market to ensure there are no anti-competitive activities and that rules are appropriate and are working as intended. The Market Surveillance Administrator communicates information arising from the various activities of the Market Surveillance Administrator within its mandate, to foster transparency and confidence for stakeholders. It responds to matters brought to the attention of the Market Surveillance Administrator through complaint or referral, and resolves issues before they become complaints. It examines the conduct of market participants to ensure compliance with legislation, regulations and rules; making sure sufficient remedies exist to avoid untoward market behaviour or activity. The Market Surveillance Administrator issues guidance to the market and makes recommendations to the Department of Energy and other parties where appropriate, toward the development and operation of a fair, efficient and openly competitive market.

The Market Surveillance Administrator has no share capital. The Alberta Utilities Commission Act requires that the Market Surveillance Administrator prepare a budget for each fiscal year, for approval by the chair of the Alberta Utilities Commission. Once approved, the Alberta Electric System Operator is required to pay the Market Surveillance Administrator the budgeted costs and expenses, net of any other revenues. The Market Surveillance Administrator is to be managed so that no profit or loss results on an annual basis from its operation.

2 Not-for-Profit Accounting

Effective January 1, 2011, the corporation elected to adopt Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect. The corporation has not utilized any transitional exemptions on the adoption of ASNPO. There were no adjustments to the balance sheet, the statements of operations, or cash flows.

3 Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Cash

Cash consists of cash in bank less outstanding cheques.

Capital Assets

Capital assets are stated at cost. Amortization is provided using the following methods and annual rates:

Computer Hardware	Straight-line	3 Years
Computer Software	Straight-line	3 Years
Furniture & Equipment	Straight-line	5 Years
Leasehold Improvements	Straight-line	Lease Term

Income Taxes

No provision has been made for income taxes as the Market Surveillance Administrator is a not-for-profit organization as set out in the Alberta Utilities Commission Act of the Province of Alberta.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks associated with these financial instruments.

Revenue Recognition

Consistent with the requirements of the Alberta Utilities Commission Act that the Market Surveillance Administrator operate with no annual profit or loss, collections from the Alberta Electric System Operator are recognized as revenue to the extent of annual operating costs including amortization of capital costs. In circumstances where annual collections are in excess of annual costs, the excess is deferred and recognized in future periods. In the event of a shortfall between collections and costs, the shortfall in revenue will be accrued and be collected in a subsequent period from the Alberta Electric System Operator.

Measurement Uncertainty

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO). The preparation of these financial statements includes the use of estimates and approximations. Amounts booked for accrued accounts receivable, useful lives of capital assets, accrued accounts payable and certain other expenses are based on the Administrator's best judgement and are dependent on future events. Actual results could differ from those estimates.

4 Capital Assets

	Dec 31 2012			Dec 31 2011	Jan 1 2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
	\$	\$	\$	\$	\$
Computer Hardware	119,990	101,008	18,982	29,391	33,933
Computer Software	33,719	30,922	2,797	2,610	4,277
Leasehold Improvements	11,033	5,722	5,311	8,189	-
Furniture & Equipment	117,178	95,052	22,126	13,043	4,684
	<u>281,920</u>	<u>232,704</u>	<u>49,216</u>	<u>53,233</u>	<u>42,894</u>

5 Deferred Revenue

The collections from the Alberta Electric System Operator are set to recover the operating and capital costs of the Market Surveillance Administrator. Any excess or shortfall in collections is deferred to or accrued for future years.

	Dec 31 2012	Dec 31 2011	Jan 1 2011
	\$	\$	\$
Alberta Electric System Operator			
Opening balance, January 1	334,730	322,057	512,860
Collection for February to December	3,183,170	2,572,060	2,842,688
Less: Revenue recognized in the year	<u>(3,021,823)</u>	<u>(2,848,766)</u>	<u>(3,267,316)</u>
	496,077	45,351	88,232
Collection for January	<u>214,954</u>	<u>289,379</u>	<u>233,825</u>
Closing balance, December 31	<u>711,031</u>	<u>334,730</u>	<u>322,057</u>

6 Commitments

The Market Surveillance Administrator is committed under a lease agreement for its current premises until October, 2014. Total lease costs including estimated operating costs are approximately as follows:

	<u>\$</u>
2013	257,654
2014	214,711

The Market Surveillance Administrator has entered into a service agreement with the Alberta Electric System Operator, under which the Market Surveillance Administrator receives certain information technology and office services. These services are provided for a monthly fee of \$3,500, plus an hourly fee for special projects.

7 Credit Facility

The Market Surveillance Administrator has a demand operating facility. Under the terms and conditions of this facility, the corporation can borrow up to \$300,000 at the prime rate plus 0.75% of interest. No pledges of security are required from the corporation for the facility and no amount was drawn on this facility at December 31, 2012 or December 31, 2011.

References

Market Surveillance Administrator

Compliance Review 2012

<http://albertamsa.ca/uploads/pdf/Archive/0-2013/MSA%20Compliance%20Review%202012.pdf>

State of the Market Report 2012

<http://albertamsa.ca/uploads/pdf/Archive/2012/SOTM%20Final%20Report%2020130104.pdf>

Notice re July 9, 2012 Load Shed Event

<http://albertamsa.ca/uploads/pdf/Archive/2012/Notice%20July%209%20121102.pdf>

Notice re Market Data Transparency-Stakeholder Input Requested

<http://albertamsa.ca/uploads/pdf/Archive/2012/Notice%20re%20Market%20Data%20Transparency%20101812.pdf>

MSA Feedback 2012

<http://albertamsa.ca/index.php?page=2012-2>

Alberta Legislation

Alberta Electric Utilities Act, Chapter E-5.1 (2003)

http://www.qp.alberta.ca/574.cfm?page=E05P1.cfm&leg_type=Acts&isbncln=9780779747542

Alberta Utilities Commission Act, Chapter A-37.2 (2007)

http://www.qp.alberta.ca/574.cfm?page=A37P2.cfm&leg_type=Acts&isbncln=9780779747580

Fair, Efficient, Open Competition Regulation, AR 159/2009

http://www.qp.alberta.ca/574.cfm?page=2009_159.cfm&leg_type=Regs&isbncln=9780779747719

Code of Conduct Regulation, AR 160/2003

http://www.qp.alberta.ca/574.cfm?page=2003_160.cfm&leg_type=Regs&isbncln=9780779728824



The Market Surveillance Administrator is an independent enforcement agency that protects and promotes the fair, efficient and openly competitive operation of Alberta's wholesale electricity markets and its retail electricity and natural gas markets. The MSA also works to ensure that market participants comply with the Alberta Reliability Standards and the Independent System Operator's rules.