



Alberta Market Surveillance Administrator (MSA) Newsletter

October 2013

The MSA 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. From time to time the MSA receives enquiries from academics, students, and consultants about the Alberta market.

The purpose of this newsletter is to provide useful information on current and recent analysis and data availability. The MSA hopes this will inspire more analysis and greater understanding of the Alberta electricity market. Moreover, the MSA hopes to advance its own analyses by adopting better practices and techniques and by increasing its interaction with external researchers.

Data Transparency and the Historical Trading Report

The Historical Trading Report (HTR) is a document published by the Alberta Electric System Operator (AESO) shortly after the beginning of each hour that makes public all energy market offers (including certain well-known errors) for the previous hour. The MSA recently published a report concluding that the HTR serves as a mechanism for, and has been used by, some of the dominant Alberta-based generators to coordinate the setting of wholesale electricity prices. In some cases, prices were substantially higher than they otherwise would have been. To ameliorate this problem the MSA has proposed that the structure of the HTR be modified so as to prevent its use as a coordinating device. The AESO is currently considering the recommendation and is expected to respond to it in the next few weeks. The MSA's report can be found [here](#).

Assessment of Market Impact

The MSA recently initiated stakeholder discussions to consider issues related to the assessment of the market impacts associated with anticompetitive conduct, proposed ISO rules, or other matters related to the functioning of the market. The MSA proposes to employ 'but-for' analysis to estimate the likely alternative outcome—potentially a set of outcomes based on sets of different assumptions—that would have occurred in the absence of the anticompetitive conduct or in the presence of the proposed ISO rule.

The market impacts considered in any assessment are comprised of transfers between consumers and producers, and productive and allocative efficiency losses. This requires consideration of how a given matter affects the spot, forward, and operating reserves markets both directly and indirectly. The MSA believes that 'but-for' analysis is well-suited for application to the energy-only market in Alberta, where the appropriate benchmark—as discussed at length in the MSA's [State of the Market Report 2012](#)—does not assume that price should be determined by marginal cost alone. Documents related to these discussions can be found [here](#).

Power Purchase Arrangement Paper

Power Purchase Arrangements (PPAs) in the Alberta market, distinct from the power purchase agreements common in other jurisdictions, were adopted in 2000 to increase competition among and reduce the market power of the three large incumbent firms at that time. Essentially, they resulted in the virtual divestiture of installed capacity to five firms. The PPAs create a complex network of relationships and financial flows among the firms in the market and have material effects on the incentives faced by these firms and, therefore, their conduct and the resulting performance of the market. In order to facilitate

greater understanding of this aspect of the market, the MSA is preparing a descriptive document for publication later in 2013 that explains PPAs in significant detail.

Genesee PPA Sale

The MSA was asked by the Balancing Pool, an independent provincial government agency in Alberta, whether sale of the Genesee PPA (in a variety of different ways) would raise competition concerns to which the MSA would respond. Competition concerns depend on the details of any proposed transaction, expected future conditions in the Alberta market, and the degree to which the parties have market power in the Alberta market.

Were it necessary, the MSA would conduct an assessment of whether a potential acquisition would raise competition concerns based on either the 'unilateral effects' or 'coordinated effects' doctrines. In particular, the MSA does not view the 30% offer control cap contained in section 5 of the [Fair, Efficient and Open Competition Regulation](#) as providing safe harbour from merger review. We believe the market power measures discussed at length in our report [Measuring Generator Market Power](#) are more appropriate as they account for the particular characteristics of the Alberta market, specifically that market power is highly transitory through time and coordinated effects are of first-order importance. The MSA's formal response to the Balancing Pool is [here](#).

Notes from a Small Market: The Electricity Market in Alberta

Derek Olmstead and Matt Ayres, MSA, have written a short paper that outlines the key characteristics of the Alberta market (including those that differentiate it from other electricity markets), issues related to competition and efficiency, and certain outstanding issues believed to be of broad interest. The paper benefited from discussion at the [Harvard Electricity Policy Group](#) meeting in Calgary in June 2013 and with participants of the 2013 International Association for Energy Economics [International Conference](#) in Daegu, South Korea. The paper is forthcoming in the [Electricity Journal](#). Comments are welcome.

Data Availability regarding Alberta's Electricity Market

Significant data regarding the wholesale market is available from the AESO, including firm-level offers, demand, and pool prices. In some cases, these data are available for up to 12 years at an hourly frequency. Some forward market data is available from the MSA and the MSA [recently](#) assumed responsibility for publishing retail market statistics, including switching statistics. No confidential data will be released. While interpretation and understanding of some of these data is highly complex, the MSA is willing to engage with interested researchers to overcome these barriers.

Contact Information

Additional information is available on the MSA's website at www.albertamsa.ca. Interested readers can also contact Derek Olmstead at derek.olmstead@albertamsa.ca (on exchange with the Australian Energy Regulator from October 2013 to April 2014) or Matt Ayres at matt.ayres@albertamsa.ca with questions and comments.

The MSA plan publishing a short newsletter describing recent electricity market analyses on a semi-annual basis. Readers wishing to subscribe to this newsletter can [subscribe here](#). Please note that the subscription to the newsletter is independent from the MSA's regular news subscription available on its website.