



Q4/12 Quarterly Report

October – December 2012

January 29, 2013

A new focus for the quarterly report

Following from the MSA's State of the Market Report released in December 2012, we are looking at ways to improve the MSA's regular reporting via Quarterly Reports. For the Q4 report this remains a work in progress; the MSA anticipates it will take a number of quarters to implement all of the changes. The MSA welcomes feedback and advice on what changes should be made to both the content and frequency of reporting. Please submit [comments via email](#).

In changing the quarterly report the MSA's objectives are:

- Rebalancing the report to provide more focus on forward, operating reserve, and retail markets;
- A more concise, accessible report not limited to specific methodologies, but rather a discussion of interesting events;
- New metrics that measure competition or when administrative procedures/rules interfere with market outcomes;
- An informative report for stakeholders, consuming less internal resources;
- More timely publication (i.e., closer to the end of a quarter than is currently the case);
- Not duplicate information that is available on the AESO website; and
- Improved presentation.

Our intention is to include sections on:

- **Power pool events:** The purpose is to increase market confidence by explaining underlying causes of market events and provide an initial screen for events requiring further scrutiny or analysis; the graphics utilized would vary from quarter to quarter based on what we view as relevant.
- **Forward market events:** This section will regularly feature some of the metrics from the State of the Market Report. In subsequent quarters we will examine whether we can add a concise event analysis similar to that included in the power pool event section;
- **Retail market events:** Brief commentary will also be included on events relevant to the determination of the regulated rate option. It is intended that this section will also contain regular updates on switching statistics, and if possible churn rates, for both electricity and natural gas;
- **Compliance:** The quarterly report will feature a section on compliance activities similar to that in previous Quarterly reports. For the Q4 report this section has been omitted in favour of the MSA's annual Compliance Review which will be available on the MSA's website in the next few weeks; and
- **MSA Activities:** Similar to previous reports there will be a short section summarizing MSA activities during the quarter.

The report will not include appendices of additional tables and figures (although some will feature in the main part of the report). In future quarterly reports we plan to add an additional section on operating reserve events. Where a market event warranted further analysis than provided in the Quarterly Report we would publish a separate report. This has a number of advantages, including that it can be done outside the normal timeline associated with a quarterly reporting as well as considering events in the context of multiple quarters.

Wholesale market

The average pool price in Q4/12 was \$78.71/MWh (\$102.33/MWh on peak, \$31.53/MWh off peak), with prices averaging 3.4% higher than Q4/11. Mild weather in mid-December resulted in a period of relatively low and stable prices, despite demand being at its highest point. During Q4, a common occurrence was constrained down generation (CDG) and reduced imports due to insufficient internal transmission capability. This may have been due to a number of factors, including:

- High loading levels on transmission lines into Calgary which impacted import total transfer capability (TTC);
- Transmission outages on the North-South 240 kV 'back-bone' which impacted import TTC; and
- Transmission outages in the Edmonton area in combination with other unplanned generator outages constraining down generation in the KEG area.

There was a total of an estimated 43.6 GWh of CDG across 353 hours, with a maximum CDG of approximately 800 MW. Twenty-eight GWh of imports were also 'constrained-off' due to internal Alberta transmission limits across 200 hours with a maximum effect of 500 MW. The maximum combined effect was approximately 880 MW in one hour.

To illustrate the issue we have taken two distinct periods during the fourth quarter.

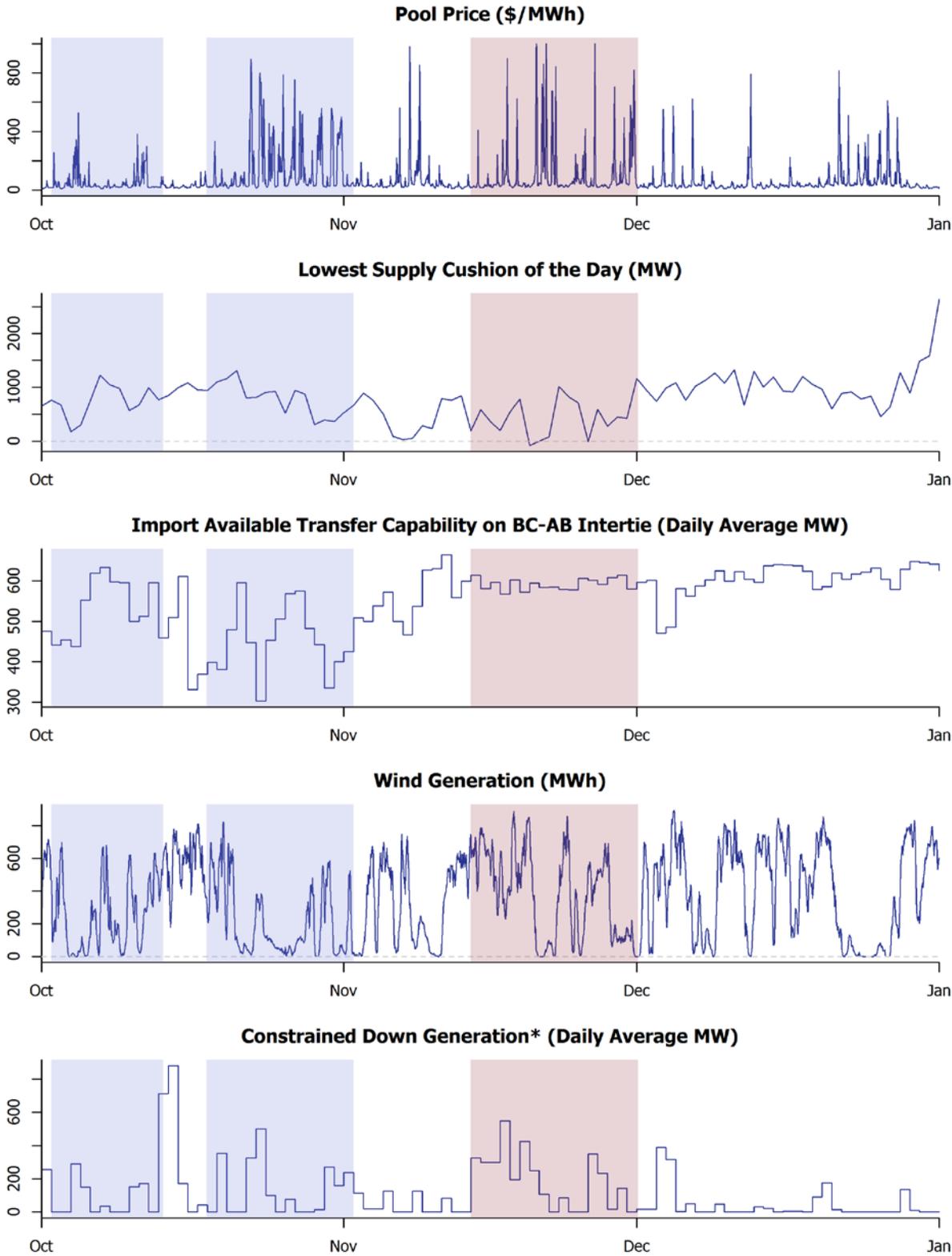
October

- **Oct 4 – 11:** Tight supply conditions over this time frame resulted in a number of price increases above \$200/MWh. The intertie with Saskatchewan was out of service until October 6, and a service outage on east/west lines resulted in CDG. Most of the price jumps coincided with falling or low wind generation. Also notable in this period, a large coal unit was offered prices resulting in the unit being offline for October 4 and 5, as well as October 10 and 11.
- **Oct 19 – 31:** In the latter part of October there were numerous reductions to the transfer capability over the B.C. intertie. In some cases imports were curtailed due to high wind levels causing a contingency on transmission lines entering Calgary. In other cases, line service work reduced the intertie's capacity to as low as zero, such as on Oct 23rd. The pool price in a number of these hours was over \$700/MWh. The AESO switched to winter operating limits on November 1, and, as a consequence the events occur less frequently later in the quarter.

November

- **Nov 15 – 26:** From mid-November onward the supply stack tightened partly due to constrained-down generation in the KEG area as a result of the impact of unplanned generation outages at Sundance in combination with the planned transmission outages in the Edmonton area. For example, on November 17 this combination required the reduction of close to 500 MW in the KEG area. As an illustration, in HE 18 the supply cushion was 190 MW and pool price was \$899.90/MWh. All else equal without the CDG, the pool price would have been about \$45/MWh.

		2011	2012	% Change
Pool Price (\$/MWh)	Oct	69.75	91.36	31.0%
	Nov	108.24	87.41	-19.2%
	Dec	51.26	57.62	12.4%
	Q4 Total	76.09	78.71	3.4%
Peak Load (MW)	Q4 Total	10,186	10,599	4.1%
CDG (GWh)	Q4 Total	6.6	43.6	560.4%



* Note: The MSA is currently looking at alternate measures of CDG, so these values will be subject to revision and should be considered preliminary

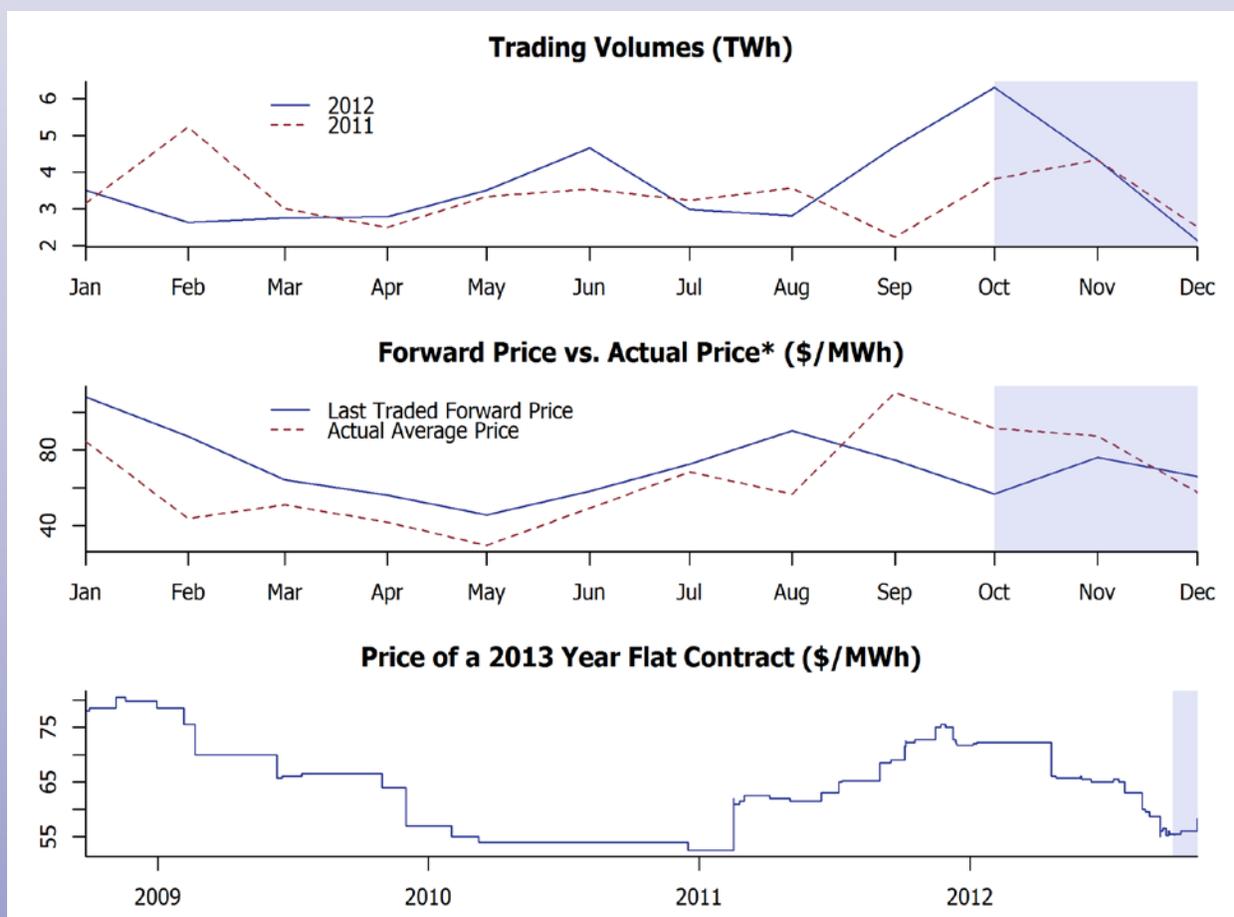
Wholesale forwards

In Q4/12, there were approximately 12.8 TWh of forward trading, nearly 20% more than Q4/11. The difference was entirely due to additional activity in October. The most heavily traded throughout the quarter were monthly contracts, typically for early 2013. In terms of volume, there were also large annual contracts for the calendar years 2014 and 2015. Year 2013 was also traded, but at less than half the volume of the 2014/15 calendar years. Looking back, with the exception of December, actual prices were higher than the last traded forward price for the month.

	Total Traded Volume (TWh)		
	2011	2012	% Change
Oct	3.81	6.30	65.4%
Nov	4.34	4.34	-0.1%
Dec	2.52	2.14	-14.9%
Q4 Total	10.67	12.79	19.8%

A Look Ahead

Long term forward prices are considerably lower than earlier in the year. At the time of writing, the last annual flat contract for 2013 was priced at approximately \$58/MWh. Year 2014 was priced at \$48/MWh, and 2015 at \$47/MWh. In early 2012, these prices ranged from \$65/MWh to \$75/MWh.



* Compares the price of the last traded flat monthly contract with the average pool price over the month

Retail market

There are currently three separate proceedings before the Alberta Utilities Commission (AUC) in connection with the Energy Price Setting Plans (EPSPs) of Direct, ENMAX and EPCOR. These plans provide a mechanism for the firms to purchase energy for the customers on the Regulated Rate Option (RRO) and must comply with the RRO Regulation (AR 262/2005).

▪ **Proceeding #2155 Direct Energy Marketing Ltd Interim Amended 2011-14 EPSP Application**

In late September 2012, Direct applied to the AUC for a refundable increase in the risk compensation margin from \$2.97/MWh to \$7.35/MWh effective November 2012. The referenced risk relates to the gap between Direct's real-time RRO load and the volume purchased ahead of the month. Direct's assertion is that the risk associated with buying and selling at pool prices has been significantly higher than expected and that they are suffering significant losses. Direct noted that they were in negotiations with the consumer groups to amend the EPSP and the results of that negotiation may have a bearing on the risk margin – hence the reference to 'refundable increase' in the application.

Direct identified the MSA's Offer Behaviour Enforcement Guidelines (OBEGs) as a prime cause of the increased risk they were experiencing. The MSA intervened in the proceeding to offer any information concerning the MSA's OBEGs. On November 21, 2012 the MSA responded to a number of questions posed by the AUC. As of mid-January 2013, the negotiations between Direct and the consumer groups have ceased and Direct has changed the nature of the application to be on a final basis. This proceeding runs to May 2013 and a final decision by the AUC is to be made thereafter.

▪ **Proceeding #2253 ENMAX Energy Corp. 2011-14 EPSP Amendment Application**

In December 2012, ENMAX applied to the AUC for an amendment to their existing EPSP. ENMAX applied to increase their risk margin and to change the hedging program.

ENMAX claims increased wind generation, long-term outages (particularly Sundance Units #1 and #2), the AESO's creation of LSSi, and the MSA's OBEGs have combined to increase the risk that they face.

The proposed changes to the hedging program would relax the restriction of energy having to be procured in a set period. It sought to address the increased prices from 'buy pressure' that ENMAX suggested existed due to the RRO providers having to buy in this period. The ENMAX proceeding is scheduled to conclude at the same time as the Direct proceeding

▪ **Proceeding #2216 EPCOR Energy Alberta Inc EPSP Amendment Application**

In late October 2012, EPCOR applied to the AUC for amendments to its EPSP. The proposed amendments were characterized by EPCOR as relatively minor. The AUC approved these amendments on January 25, 2013.

The approved amendments to the EPSP were:

1. To modify the RRO energy charge calculations to ensure price fidelity in extreme low base and high peak price conditions;
2. To adjust the liquidity adder in the acquisition criteria to enable EPCOR to procure more volume in competitive auctions;
3. To change the session volume criteria to spread procurement activities over the procurement window; and,
4. To clarify the use of source inputs for the seed price calculation.

Activities of the MSA

[Lingua Franca](#): On November 27, Harry Chandler presented at the Alberta Power Summit. The remarks, Lingua Franca – a system for mutual understanding – concern the MSA’s takeaways from AUC Decision 2012-182, the state of literacy with regard to competition law and economics among market participants, and the implications this has for compliance.

[State of the Market Report](#): On December 10, 2012 the MSA released its State of the Market 2012 Report. The conclusion of the report is that the market is ‘effectively competitive’. Wholesale prices have over the medium term been no higher than necessary to secure the reliable supply of electricity to consumers now and in the future. The report, for the first time, provides estimates of efficiency losses. Our finding is that short term efficiency losses are small relative to gains over time. The final report and associated ‘building block’ reports are available on the MSA website. The MSA is seeking comment from stakeholders by February 28, 2013 and has scheduled meetings with individual stakeholders and interested parties early in 2013 to receive additional feedback.

[Feedback – Excess Energy / Increased Capacity Offers of PPA Units](#): This MSA Feedback note is directed to market participants that place Excess Energy / Increased Capacity offers into the power pool in relation to a Power Purchase Arrangement (PPA). In particular, the sharing of price-quantity offers between PPA Buyers and PPA Owners is discussed. This Feedback was posted to the MSA’s website on November 7, 2012.

[Feedback - Public Information and Trading](#): The MSA received an inquiry regarding trading based on information in respect of asset capability changes (outages) that is available from public or trade sources such as news, public press releases, stakeholder consultations or industry publications. Feedback on this issue was posted to the MSA’s website on November 23, 2012.

[Market Data Transparency](#): Stakeholder input was requested in regard to the ongoing AESO / MSA consultation around market data transparency. Comments received were posted to the MSA’s website on November 16, 2012. The next step is posting responses to the comments received.

[July 9, 2012 Load Shed Event](#): The MSA reviewed the events of July 9, 2012 in which 200 MW of load was shed in Alberta as a result of lack of supply. In its report posted November 2, 2012, the MSA concluded that it 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. The MSA did make several suggestions to the AESO regarding potential lessons learned.



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.