



Report to the Minister

For the Year Ending December 31, 2014

March 20, 2015



March 20, 2015

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

Dear Minister:

RE: Annual Report for 2014

It is my pleasure to submit the Annual Report of the Market Surveillance Administrator for the year ending December 31, 2014. The Report is provided to you pursuant to subsection 38(1) of the Alberta Utilities Commission Act.

Thank you for your support and that of Minister McQueen during the year.

Yours truly,

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 2014 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, most 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 summarizes the MSA’s financial performance for the 2014 including 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 (Commission or AUC) 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 before the Alberta Utilities Commission for contraventions of the market rules, the Alberta Reliability Standards, the *Electric Utilities Act*, or the *Fair, Efficient and Open Competition Regulation*.

During 2014 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, Rules and Reliability Standards Compliance, and Administration, this last reflecting change impacting the MSA and its stakeholder community.

2 Market Monitoring

In respect of its market monitoring activities, much of the MSA’s efforts in 2014 were focused in the area of retail competition with a number of studies beginning with the commissioning of a research report by the Leger Group to assess co-branding effects in Alberta. This work was jointly sponsored by the Utility Consumer Advocate and results were used in co-branding assessment work for the Retail Market Review Committee implementation team. In April, the MSA published its annual retail statistics report containing analysis of market shares, churn rates, and statistics on dual fuel and green energy contracts. In July the MSA published a report titled “Alberta Retail Markets for Electricity and Natural Gas: A description of basic structural features” - a broadly targeted report to assist consumer education of retail market structure. These ‘building block’ items culminated in the publication of the “State of the Market 2014: The residential retail markets for electricity and natural gas” which was the centerpiece of the MSA’s efforts in this area. Among the conclusions of the report was that competitive pricing and diversity of contract choices are tangible benefits of retail competition in Alberta. With respect to the

wholesale market, the MSA continued its timely reporting on market fundamentals and outcomes via MSA quarterly reports as well as its annual analysis of market share offer control further to section 5 of the *Fair, Efficient and Open Competition Regulation*. In addition, for the benefit of the market at large, the MSA published data and its related methodology to construct the supply cushion metric it has been utilizing since 2010 to assess market tightness.

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* (EUA) 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. Equally under section 16 of the EUA the Independent System Operator (currently the Alberta Electric System Operator or AESO) is charged, among other things, "...to promote a fair, efficient and openly competitive market for electricity."

Through much of 2014, the MSA's primary focus in this area was in preparing for a contested proceeding before the Alberta Utilities Commission pertaining to the MSA's investigation of market conduct by TransAlta Corporation and related matters also involving an employee and former employee. These matters led to the filing of a Notice of Request for Hearing with the Commission February 25, 2014 and subsequently a detailed Application on March 21, 2014. Just prior to the MSA's Notice, TransAlta and the individuals filed a complaint against the MSA under section 58 of the *Alberta Utilities Commission Act*. In a decision released May 15, 2014, the Commission dismissed the complaints because the matter was similar in substance to what was already before the Commission by virtue of the MSA's Application. The Commission's proceeding moved forward during the year with oral examinations in December and final written arguments spilling over into 2015, the last of which was filed February 19, 2015. The Commission has 90 days to release its decision.

The Commission had 11 proceedings in 2014 to consider applications seeking orders permitting the preferential sharing of records not available to the public (filed pursuant to section 3 of the FEOC Regulation). The MSA participated in all but one of these proceedings and has provided feedback to applicants to reduce issues and help to expedite the consideration of these matters.

The MSA's outreach efforts during 2014 included presentations to the Alberta Compliance Discussion Council, the Alberta Power Symposium, CanSIA, and a panel-format stakeholder meeting hosted by the MSA in October to facilitate input on MSA strategic planning.

4 Rules and Reliability Standards Compliance

The MSA plays a role in ensuring well-functioning electricity markets in Alberta by promoting compliance with the ISO Rules and the Alberta Reliability Standards. Detailed results for 2014 are the subject of a separate published report, *Compliance Review 2014* which was published on February 11, 2015. 2014 compliance outcomes with respect to ISO rules confirmed the leveling off of compliance issues observed last year with a modest decrease in 2014. The large majority of compliance matters addressed were self-identified and reported by market participants. This follows from our approach to promote

effective internal compliance programs such that participants implement effective procedures and tools to monitor their compliance and receive favorable treatment or otherwise risk having the non-compliance identified by the AESO or the MSA. The number of reliability standards compliance issues addressed in 2014 increased sharply relative to 2013 as the AESO was able to complete a greater number of compliance audits. A contributing factor was the growing number of reliability standards approved as applicable in Alberta. The MSA issued 47 notices of specified penalty regarding ISO rules matters totaling \$40,250 as compared to 45 notices of specified penalty totaling \$60,250 in 2013. The MSA issued a further 21 notices of specified penalty in relation to Alberta Reliability Standards matters totaling \$155,000. None of the notices of penalty issued in 2014 were disputed or remained unpaid.

5 Administration

In late 2014 the MSA was designated a “public body” pursuant to the *Freedom of Information and Protection of Privacy Act* (FOIP Act). Concerted efforts were made in recent months to carry out a staff training program and to undertake a review of MSA procedures to ensure compliance with the FOIP Act.

A second noteworthy development in 2014 was the formalizing of relations with the Competition Bureau and the US Federal Energy Regulatory Commission in the signing of memoranda of understanding. These memoranda contemplate coordination and the sharing of confidential information within the parameters allowed by legislation such that regulatory efficiency is enhanced.

6 Financial Statements

Due to higher than expected costs associated with its investigation activities, the MSA requested an amendment to its originally approved 2014 budget in order to ensure the MSA could effectively carry out its mandate in 2014. As set out in the *Alberta Utilities Commission Act*, the MSA recognizes revenues to the extent required to match expenses in order that no profit or loss results in a fiscal year. As a result of the additional funding requested during 2014, surplus contributions of approximately \$1.1 million will be deferred and realized as revenue against the MSA’s expenses during fiscal 2015. The demands of investigating and prosecuting a complex market issue and the difficulty in forecasting such costs within a fiscal year presented challenges to the MSA in 2014.

The audited statements of the MSA for the year ended December 31, 2014 follow. The format of the financial statements reflects accounting standards for not-for-profit organizations (ASNPO).

Market Surveillance Administrator

**Financial Statements
For The Years Ended December 31, 2014 and 2013**



March 2, 2015

Independent Auditor's Report

To Management of Market Surveillance Administrator

We have audited the accompanying financial statements of Market Surveillance Administrator, which comprise the statement of financial position as at December 31, 2014 and December 31, 2013 and the statements of operations and cash flows for the years ended December 31, 2014 and December 31, 2013, 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 audit. We conducted our audit 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

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*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 Market Surveillance Administrator as at December 31, 2014 and December 31, 2013 and the results of its operations and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants

**Market Surveillance Administrator
Statement of Financial Position
As at December 31,**

	2014	2013
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	2,445,323	699,183
Prepaid expenses and deposits	<u>38,144</u>	<u>45,131</u>
	2,483,467	744,314
Non Current Assets		
Capital assets (note 3)	<u>25,083</u>	<u>30,071</u>
Total Assets	<u><u>2,508,550</u></u>	<u><u>774,385</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,133,008	702,710
Deferred contributions (note 4)	<u>1,375,542</u>	<u>71,675</u>
Total Liabilities	2,508,550	774,385
NET ASSETS (note 1)	<u>-</u>	<u>-</u>
Total Liabilities and Equity	<u><u>2,508,550</u></u>	<u><u>774,385</u></u>

The accompanying notes are an integral part of these financial statements

On behalf of the corporation:

/s/ Harry Chandler
Harry Chandler
Market Surveillance Administrator

/s/ Doug Doll
Doug Doll
Chief Financial Officer

Market Surveillance Administrator Statement of Operations For The Year Ended December 31,	2014	2013
	\$	\$
Revenue		
Alberta Electric System Operator (note 4)	5,219,198	3,590,184
Total Revenue	<u>5,219,198</u>	<u>3,590,184</u>
Expenses		
Salaries and benefits	2,210,937	2,175,674
Consultants & audit	121,840	60,600
Legal fees	2,436,006	905,502
Operating, office and administrative	436,844	422,304
Amortization	13,571	26,104
Total Expenses	<u>5,219,198</u>	<u>3,590,184</u>
Excess (deficiency) of revenue over expenses	<u>-</u>	<u>-</u>

Market Surveillance Administrator Statement of Cash Flows For The Year Ended December 31,	2014	2013
	\$	\$
Cash provided by (used for):		
Operations		
Net earnings	-	-
Item not involving cash:		
Amortization	13,571	26,104
Change in non-cash operating items:		
Change in contributions receivable	-	225,702
Decrease in prepaid expenses and deposits	6,987	12,273
Increase in accounts payable and accrued liabilities	430,298	337,318
Increase (decrease) in deferred contributions	1,303,867	(639,356)
	<u>1,754,723</u>	<u>(37,959)</u>
Investing		
Expenditures on capital assets	<u>(8,583)</u>	<u>(6,959)</u>
Increase in cash	1,746,140	(44,918)
Cash, beginning of the period	<u>699,183</u>	<u>744,101</u>
Cash, end of the period	<u><u>2,445,323</u></u>	<u><u>699,183</u></u>

Market Surveillance Administrator

Notes to the Financial Statements For The Year Ended December 31,

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 also 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 Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO).

The financial statements have been prepared on historical cost basis, except for certain financial instruments, as set out in the accounting policies herein.

Use of Estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those reported.

Revenue Recognition

MSA follows the deferral method of accounting for contributions. Consistent with the requirements of the Alberta Utilities Commission Act that the Market Surveillance Administrator operate with no annual profit or loss, contributions 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 contributions are in excess of annual costs, the excess is deferred and recognized in future periods. In the event of a shortfall between contributions and costs, the shortfall in revenue will be accrued and be collected in a subsequent period from the Alberta Electric System Operator.

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

Company's financial instruments consist of cash, deposits, and accounts payable and accrued liabilities.

The Company's financial assets and liabilities are initially recorded at fair value and subsequently measured at amortized cost. All financial instruments are included on the statement of financial position. At each reporting period, the Corporation will assess whether there is any objective evidence that a financial asset is impaired. Impairment, if any, is recorded in the statement of operations.

Unless otherwise noted, it is management's opinion that Corporation is not exposed to significant interest, currency or credit risk from these financial instruments.

Cash and Cash Equivalents

Cash and cash equivalents consists of amounts on deposit at financial institutions.

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

3 Capital Assets

	2014		2013	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Computer Hardware	125,126	120,428	4,698	5,415
Computer Software	34,706	33,654	1,052	2,053
Leasehold Improvements	-	-	-	2,433
Furniture & Equipment	126,597	107,264	19,333	20,170
	286,429	261,346	25,083	30,071

4 Deferred Contributions

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 future years.

	<u>2014</u> \$	<u>2013</u> \$
Alberta Electric System Operator		
Opening balance, January 1	71,675	711,031
Add: Contributions (February to December)	6,207,115	2,611,999
Less: Revenue recognized in the year	<u>(5,219,198)</u>	<u>(3,590,184)</u>
	1,059,592	(267,154)
Contribution for January	315,950	338,829
Closing balance, December 31	<u><u>1,375,542</u></u>	<u><u>71,675</u></u>

5 Commitments

The Market Surveillance Administrator is committed under a lease agreement for its current premises until October, 2019. Total lease costs including estimated operating costs are approximately as follows:

	<u>As at 31 December, 2014</u> \$
2015	263,437
2016	264,563
2017	276,941
2018	288,195
2019	252,353

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.

6 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 year-end.

A \$500 fee per annum is paid by MSA to maintain this facility.

References

Market Surveillance Administrator

Annual Retail Statistics Report

<http://albertamsa.ca/uploads/pdf/Archive/00-2014/Notice%20re%20Annual%20Retail%20Statistics%20Report%20041614.pdf>

Basic Structural Features of the Alberta Retail Markets for Electricity and Natural Gas

<http://albertamsa.ca/uploads/pdf/Archive/00-2014/Notice%20re%20Alberta%20Retail%20Markets%20for%20Electricity%20and%20Natural%20Gas%20071714.pdf>

Compliance Review 2014

<http://albertamsa.ca/uploads/pdf/Archive/000-2015/2015-02-11%20MSA%20Compliance%20Review%202014%20final.pdf>

MSA Co-Branding Impact Research Report

<http://albertamsa.ca/uploads/pdf/Archive/00-2014/Notice%20re%20Leger%20Market%20Survey%20140325.pdf>

MOUs with the Competition Bureau and FERC

<http://albertamsa.ca/uploads/pdf/Archive/00-2014/Notice%20re%20MOU%20with%20the%20Competition%20Bureau%20and%20FERC%20030314.pdf>

MSA Quarterly Reports

<http://albertamsa.ca/index.php?page=quarterly-reports>

State of the Market 2014: The residential retail markets for electricity and natural gas

<http://albertamsa.ca/uploads/pdf/Archive/00-2014/2014-11-27%20Notice%20re%20State%20of%20the%20Market%202014.pdf>

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



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.