



NOTICE TO MARKET PARTICIPANTS AND STAKEHOLDERS

Date: October 20, 2015

Re: 2015 Stakeholder Meeting

On October 14, 2015 the MSA held a stakeholder meeting to solicit feedback on its past performance as well as its Strategic Plan over the next few years. The meeting which was open to the public, utilized a panel format moderated by the MSA's Mike Nozdryn-Plotnicki. The MSA wishes to extend special thanks to all who attended as well as the panelists for their contributions.

In addition to the [Stakeholder Meeting Agenda](#), two documents were provided to attendees in the week leading up to the meeting to stimulate discussion. The first document, the [Strategic Plan](#), provided an overview of the MSA's objectives for the period 2015 to 2018. The second document, the [Project Options List](#), described ongoing and potential projects for the MSA. Together, these documents served as a starting point for dialog pertaining to the MSA's historical and future work with regard to fulfilling its statutory mandate.

Harry Chandler opened the meeting with a brief introduction and touched on his term as Market Surveillance Administrator (MSA) having notionally ended but given that a new MSA has yet to be named, the organization must move forward with efforts to set plans for the upcoming year. The meeting was then turned over to the moderator, Mike Nozdryn-Plotnicki. The invited panel of four market participants had an opportunity to offer their views and feedback on the following list of potential MSA projects in addition to contributions from the floor.

The following is a brief summary of the discussion points related to the projects discussed during the stakeholder meeting.

1. Post 3110 Decision Assessment

The Offer Behaviour Enforcement Guidelines were completed in early 2011. Five years on, it seems reasonable to ask if they are still helpful and if so undertake a review to make sure they align with the AUC's Phase I decision in Proceeding 3110 (assuming it stands). Similarly, both our investigation procedures and stakeholder consultation process should be critically reviewed for the same reasons. All of these projects would involve engagement with stakeholders.

Three panelists agreed that it would be worthwhile to review the Offer Behaviour Enforcement Guidelines (OBEG) in light of the Proceeding 3110 decision, although it would be better to wait until Phase II of the decision is complete (currently it is before the Alberta Utilities Commission (AUC)). It was suggested that the MSA have a process whereby market participants could ask questions surrounding high level principles pertaining to offer behaviour.

Aside from the decision, there was a general curiosity from the panelists regarding where the MSA stood on the issue of withholding in the spot market to impact forward prices. In particular, how much economic withholding is permissible given an impact to the forward market? Peter Lomas of the MSA clarified that the commentary in the Q2 2015 report served to inform the market that the MSA were aware of the potential issue and that it is still under analysis.

The Utilities Consumer Advocate (UCA) said it would encourage the MSA to help it develop a market harm framework related to all aspects of the market.

The fourth panelist did not have any material concerns with the current OBEG in light of the AUC's decision and raised the point that a formal review of the OBEG could potentially introduce a lot of uncertainty into the markets.

2. Update the Wholesale SOTM

The original work, completed in 2012, was a significant effort of the MSA team. The MSA's expectation was to reassess competition every three years or so. Panelists were asked whether such reassessment should cover all aspects of the original work or be more targeted. And in light of the Government of Alberta (GOA) developing new environmental policies would it be better to wait and see how that unfolds?

Among the panelists, it was unanimous that a full review and update is probably not a good use of time, given all of the other projects the MSA is currently contemplating. It was suggested that the MSA only update the sections where it notices a material change based on its current market monitoring.

Derek Olmstead of the MSA indicated that the MSA had already decided to update certain aspects of the 2012 wholesale State of the Market (SOTM) report, specifically the assessment of static efficiency and measures of market power, and planned to make this analysis public in the coming weeks.

A member of the audience thought it would be worthwhile for the MSA to brief the new Energy Minister regarding the main conclusion of the SOTM report: that the market is effectively competitive. It was suggested that this could be beneficial to the new administration in understanding Alberta's electricity market as well as the MSA's market view. Harry Chandler mentioned that while the MSA seizes every opportunity, it does not interface with the Minister on a regular basis.

3. Historical Trading Report

This remains an outstanding issue for the MSA that has yet to be resolved.

Derek Olmstead stated that the MSA remains concerned about the potential adverse effects of the HTR on competition in the spot market but that the MSA has not reached any decisions about the matter going forward. In early 2015, following extensive consultations, the Alberta Electric System Operator announced its decision to amend the HTR; before this amendment could occur certain market participants sought judicial review of the decision from the Court of Queen's Bench. Market participants expressed concern about the length of time the matter has been under consideration.

4. Update the Retail SOTM

The retail SOTM was published in fall 2014. Some participants have asked when it will be updated. Are there key developments in the retail sector that support a reassessment of the market in 2016?

Among the panelists, it was unanimous that a full review and update is probably not a good use of time, given all of the other projects the MSA is currently undertaking. It was suggested that the MSA only update the sections where it notices a material change based on its current market monitoring.

For the Retail SOTM, a concern was raised with respect to why RRO rates are more expensive than fixed retail rates. This panel member believed that the question has not been sufficiently addressed and suggested potential inefficiencies within the market. In addition, they thought that the MSA might have a role to play in oversight for the RRO Energy Price Setting Plan implementation expected to occur in mid-2016.

5. Integration of GOA's new Climate Policy into the electricity market

The Premier has been quite clear that a major change of environmental policy for Alberta is in the offing. There will inevitably be some effect on Alberta's electricity market. Implementation can be market friendly or otherwise. Participants felt the MSA should be involved in the implementation process to try to ensure the most market-friendly outcome. Several market participants mentioned this item.

Participants felt that any new potential climate change policy would significantly impact the electricity market, particularly the wholesale side. There was general consensus that the MSA could play a valuable role in the implementation phase of the environmental policy rollout due to its ability to analyze data. In addition, some of the panel members thought that it would be useful for the MSA to assist the government in assessing various options with respect to market design including decisions such as a hard cap versus a soft cap, accelerated coal retirements, hourly dispatch and issues affecting competition. The MSA was urged to

interface with other jurisdictions to determine best practices relating to climate change policies.

There was some discussion that if the MSA is engaging with the government, it should be open and transparent with its consultation process. Derek Olmstead clarified that the MSA evaluates policy options if requested by government and does not recommend specific policies.

6. Define the role of the MSA in AESO's rule-making process

This is already part of the strategic plan. Not all ISO rules are of great interest to the MSA but a principle-based process needs to be laid out regarding when and how the MSA will involve itself in the rule making process. How should the MSA do this?

There was general consensus that the MSA should be involved in rule-making related to issues affecting offer behaviour and competition as well as the ability to enforce these rules. However, for other issues, there was greater hesitation as to the degree, and at what point, the MSA should get involved given the separation of rule making and rule enforcing authorities. Doug Doll of the MSA clarified that the MSA would only get involved in the rule-making consultation process if it disagreed with the AESO's approach on a given issue and its involvement was warranted. It was suggested that the MSA release a discussion level paper of its position before the recommendation process occurs. A member of the floor suggested that industry should have the opportunity to come to a decision first, before the MSA gets involved.

7. Section 95(10) Assessments

Some participants have expressed concerns over the existing process and its efficacy in achieving the desired level playing field. This process is under the control of GOA but should the MSA be involved in some manner with a GOA assessment of the existing process and what, if anything, might follow.

One of the panelists expressed disappointment with inaccuracies not being corrected within the assessments. Furthermore, they mentioned that there are still issues around the assessment process and whether the assessments are thorough enough and focus on key issues. A question was raised as to what follow-up compliance mechanisms are in place to ensure that any assessment findings are carried out. Mark Nesbitt of the MSA stated that the MSA is able to look into any issues related to competition, but that any ongoing reviews are left to the government.

8. Formalize the MSA's bilateral interactions with market participants

The nature of our work involves many different forms of interaction with market participants. Of necessity, some of these are confidential. However, to the maximum extent possible the results of these interactions should be made public. Do we need

to develop a formal process to describe the interactions, how they will be documented and how (or if) they will be made public?

It was suggested that in cases where an issue brought forward by a market participant has broader market implications, the MSA should ask participants if it is okay to frame the question in an open manner to the wider market. It was also suggested that quarterly reports should be a vehicle for addressing the broader concerns and questions of market participants.

Being subject to the FOIP Act, the MSA clarified that its legal counsel and FOIP coordinator would be responsible for determining the confidentiality of commercially sensitive documents and records.

9. Market Harm Paper

A stakeholder process on this was halted pending the outcome of the 3110 decision. At this time, we are of the view that market harm has been defined within the submissions for the two phases of 3110. Do market participants agree with this statement?

Many of the panelists thought more work needed to be done to define the level of competition within Alberta's electricity market and define what constitutes harm. In particular, the panelists wanted to know at what average price the market was effectively competitive and how that number was derived. It was suggested that the paper include a discussion on dynamic efficiency and the volatility of prices and their relationship with the OBEG, as well as a comparison of competition between Alberta's market and other jurisdictions around the world.

10. Educational PPA Paper

This item is in the strategic plan and would serve a number of purposes. It would provide some history behind the development of the PPAs, the mechanics of their operations between Owners and Buyers, and a look forward to the time when the PPAs are slated to expire at which time plant control returns to their Owners. In light of the extensive record on PPAs in Proceeding 3110 is there any value in moving forward with this project?

While the panelists all felt that the Educational PPA paper was largely unnecessary at this point in the PPA's life, several audience members thought it would be relevant and useful. Matt Ayes of the MSA suggested that the document would not be targeted at large generators, but rather at other market participants and members of the public.

In addition to the formal discussion points, there was a brief conversation around the GOA's zero transmission congestion policy as well as the issue of the Alberta Securities Commission (ASC) becoming more involved in derivatives trading pertaining to electricity.

A member of the floor proposed that the MSA look into the zero congestion policy for transmission and evaluate what effect it had on prices within the energy market. In particular, what is the market response to the increased costs and what effect does that have on the efficiency of the market with respect to generators being incentivized to build 'behind the fence'.

Within the derivatives market, one of the panelists suggested that the jurisdiction and the harmonization of information sharing between the ASC and the MSA should be looked at in greater detail. In particular, what is the relationship between the agencies with respect to data reporting, oversight and enforcement?

Matt Ayes concluded the meeting with a brief summary and invited further discussion and feedback on the topics.

Further comments can be directed to stakeholderconsultation@albertamsa.ca.

We thank all those who participated in the meeting which was very useful as we formulate our budget and detailed work plans for 2016.

Yours truly,

/s/ Brandon Esau

Analyst