

Report to the Minister

For the Year Ending December 31, 2016

March 10, 2017

Taking action to promote effective competition and a culture of compliance and accountability in Alberta's electricity and retail natural gas markets

www.albertamsa.ca

MARKET SURVEILLANCE
ADMINISTRATOR

#500, 400 – 5th Avenue S.W.
Calgary AB T2P 0L6

March 10, 2017

The Honorable Margaret McCuaig-Boyd
Office of the Minister of Energy
408 Legislature Building
10800 - 97 Avenue
Edmonton, Alberta T5K 2B6

Dear Minister:

Re: Annual Report for 2016

I am pleased to submit the Annual Report of the Market Surveillance Administrator for the year ending December 31, 2016. This report is provided to you pursuant to subsection 38(1) of the Alberta Utilities Commission Act.

Thank you for your support during the year.

Yours truly,



Matt Ayres
Market Surveillance Administrator

cc: Willie Grieve, Chair Alberta Utilities Commission

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1 Introduction

The Market Surveillance Administrator (MSA) is an independent law enforcement agency created under the *Alberta Utilities Commission Act* (AUCA). This Annual Report for 2016 is pursuant to section 38(1) of the AUCA which requires that the MSA provide the Minister of Energy with an annual report that (a) reports on the MSA's activities in the fiscal year, and (b) contains the audited financial statements for the fiscal year.

The MSA's mission is to take action to promote effective competition and a culture of compliance and accountability in Alberta's electricity and retail natural gas markets. The MSA's mandate is set out in the AUCA and, at its core, provides that market participant conduct and market structure be monitored to ascertain how they affect competition. Competition in turn provides benefits to all Albertans by ensuring prices are, over time, no higher than necessary to secure a reliable supply of electricity now and in the future. The MSA is empowered to investigate market conduct, bring enforcement actions before the Alberta Utilities Commission (AUC) and to publish guidelines to support the fair, efficient and openly competitive operation of these markets. The MSA may investigate and seek administrative penalties or other remedies before the AUC for contraventions of the market rules, the Alberta Reliability Standards, the *Electric Utilities Act* (EUA), or the *Fair, Efficient and Open Competition Regulation* (FEOC Regulation). The MSA also has a role in bringing matters to the AUC where it believes there may be an adverse effect on the structure and performance of the electricity market.

During 2016, the MSA provided support to Alberta Department of Energy on a range of matters related to electricity. The MSA brings a unique perspective to bear, understanding how the competitive market for electricity can most readily transition to a system more reliant on renewable energy sources.

In 2016 the MSA continued to address its broad mandate through the implementation of its strategic plan, which focusses on the following five areas:

- Promotion of Effective Competition;
- Promotion of Compliance and Accountability;
- People Development;
- Strategic Review; and
- Enhancing Use of Technology.

2 Promotion of Effective Competition

Key to the MSA's yearly activities are the actions taken to promote effective competition. Those activities range from fostering confidence in the market by transparent reporting on both market events and MSA activities; taking action to ensure market structure does not adversely affect competition; and taking action to ensure appropriate market participant conduct.

2.1 Fostering market confidence through transparent reporting

For many years, the MSA has published [Quarterly reports](#) that comment on market trends, specific events, assessment of possible contraventions of regulations and other activities of the MSA. These are supplemented by annual reports, which focus on retail markets, offer control in the wholesale market, an annual assessment of trends with respect to compliance with ISO rules and Alberta Reliability standards, as well as special reports. The purpose of these reports is to be transparent about how the Alberta electricity market functions so that stakeholders can be confident that it is competitive and that the MSA is performing its role appropriately.

During 2016 MSA Quarterly Reports contained analysis and recommendations on several matters including:

- Much of the reporting for 2016 was heavily influenced by a number of factors such as weakening demand (recession plus the Fort McMurray fire), supply overhang and the return of the coal PPA units to the Balancing Pool. The market produced the lowest ever annual average pool price of only \$18.28/MWh;
- Inaccuracies in future outage reporting of gas-fueled units that potentially mislead market participants as to the actual amount to be expected;
- Data was collected directly from forward market participants on bilateral trades for the period 2013 and 2014. Analysis confirmed the MSA's belief that it is a small segment of the total forward market and therefore not required to be collected on a routine basis;
- The MSA found the business practices of one of the RRO providers to favour the affiliated competitive retailer and the RRO provider ceased the practice following the MSA's expressed concerns;
- Following analysis and recommendations by the MSA in its Q2/16 report, the AESO reduced the volume of standby regulating reserves that it purchases each day; and,
- In the Q2/16 report the MSA commented on the persistent arbitrage that existed in the near-term forward market. In the Q3/16 report the MSA commented on how that arbitrage still persisted and flowed into RRO customer costs.

In 2016 the MSA continued its focussed reporting on the retail market with two special reports. The first report, [Assessment of Inter-jurisdictional Retail Rate Comparisons](#), outlines and comments on the results of recent studies comparing monthly electricity bills in municipalities and provinces between 2013 and 2016. The MSA conducted this work as comparisons are sometimes made in the media between different jurisdictions and the MSA felt that in many cases Albertans are unlikely to find such comparisons very useful. .

The second report, [Trends in Regulated Retail Electricity and Natural Gas Bills](#), examines trends in various components of regulated bills between 2012 and early 2016. The report provides Albertans with a comprehensive explanation of the variances in regulated energy rates between different regions and municipalities. The report also shows that lower bills have been driven by lower energy prices, somewhat offset by higher distribution and transmission charges. The report also provides a look at typical bills for different household types and what the

marginal cost of energy is in different areas. The latter has obvious implications for how much money households could save as a result of reducing consumption as, for example, they adopt more energy efficient appliances. The report was accompanied by a billing tool that provides a comprehensive set of data for understanding regulated electricity and natural gas billing.

2.2 Taking action to ensure market structure does not adversely impact competition

Electricity markets are complex. Rules, standards, regulations and business practices all provide a structure within which competition occurs. Part of the MSA's work is to pro-actively assess whether the resulting structure, rather than participant conduct, impedes competition to the detriment of Albertans.

Historical Trading Report

In December 2015, having consulted extensively with stakeholders and the Independent System Operator (ISO), the MSA brought an application before the AUC in respect of the ISO's publication of Historical Trading Report (HTR). The MSA is concerned that this report, which contains hourly information related to generator's offers to supply power to the Alberta market, undermines the fair, efficient and openly competitive nature of the wholesale electricity market. The MSA is of the view that the HTR makes possible dramatic increases in the electricity pool price when certain market conditions are present and as a result in higher prices for consumers of electricity.

Part of the reason for the MSA filing an application with the AUC in respect of this matter was that certain market participants represented by the Independent Power Producers' Society of Alberta (IPPSA) had sought in March 2015 to prevent the ISO from modifying the HTR report via a request for a judicial review. At the time of the MSA's filing, the judicial review was adjourned sine die (without date).

Five days after the MSA's application was filed, the judicial review was rescheduled for February 9, 2016. IPPSA indicated that should it prevail in the judicial review proceeding regarding the format and publication timing of the HTR, there would be no basis for the Commission proceeding. The MSA sought to intervene in this matter since the action sought to prevent both the MSA and the Commission from carrying out the duties assigned to them under the electricity legislation. In hearing the matter, Justice Nixon allowed the MSA to intervene, stating:

The MSA was granted intervenor status in part because it plays a key role in the electricity market in Alberta. Further, the MSA is directly affected by the subject matter of the judicial review. As astutely observed by legal counsel for the MSA in its brief, the issue in the judicial review, namely the format and publication timing of the HTR, will directly affect many parties, including the Commission, electricity consumers, and electricity market participants. The

MSA provided information important to the Court's decision whether to exercise its discretion to adjourn, stay or dismiss the Application for Judicial Review before it is heard.

The Court decision also held that the AUC is a specialized expert tribunal established by the legislature to consider and decide issues pertaining to Alberta's electricity regime and that not only should deference be accorded to its decisions, but also the right for it, not the Court, to make those decisions in the first instance.

Regarding IPPSA's request for judicial review, Justice Nixon concluded:

There is no purpose for the judicial review other than to seek a judicial interpretation of s 6 of the FEOC Regulation and pre-empt the proceedings before the Commission. IPPSA asks the Court to interpret a regulation that is part of the home legislation of the Commission. As aptly stated by counsel for the MSA in its brief, what IPPSA is seeking in the judicial review is a declaration by the Court that the current format and publication timing of the HTR is required as a matter of law. Such a declaration would not only be binding on the Commission, making its proceeding nugatory, it would affect all those involved in the electricity market in Alberta, including consumers.

In summary, the Court declined to exercise its discretion to review the ISO decision respecting the HTR and granted the preliminary application brought by the ISO and the MSA to dismiss IPPSA's application for judicial review. The MSA was awarded costs for its intervention in this matter.¹

Following the dismissal of the judicial review, the MSA's application to the AUC (proceeding 21115) proceeded resulting in a hearing in early December 2016. The AUC is expected to render a decision on the future of the HTR in May 2017.

Information sharing between market participants

The regulations governing the Alberta electricity market, place a number of requirements on market participants. One such requirement is that before certain information can be shared between market participants, perhaps as the result of a joint venture or other commercial arrangement, approval must be granted by the AUC. The MSA plays a key role in these proceedings, both in assisting potential applicants and by participating to ensure there are sufficient safeguards in place such that shared information will not be used for purposes inconsistent with the competitive market. In 2016 the MSA has worked with a number of market participants who have been preparing information sharing arrangements, including those that would allow the Balancing Pool to engage an agent to perform certain functions in relation to a number of PPA units.

¹ Further details and a [link](#) to the Court decision are available on the MSA website.

2.3 Taking action to ensure market participant conduct supports fair, efficient and open competition

In addition to pro-actively addressing issues relating to market structure, the MSA's mandate extends to enforcement actions where it believes market participants have contravened legislation, rules or standards. Much of the MSA's work during 2015 had focused on an enforcement proceeding (AUC proceeding 3110) that resulted in an administrative penalty against TransAlta in the amount of \$51,920,814.31 plus MSA hearing and investigation costs of \$4,327,542.29.² Under the AUCA, administrative penalties are paid to the General Revenue Fund of the Province of Alberta. In accordance with the AUC decision, \$26,920,814.31 of the penalty was payable by December 10, 2015 with a second payment of \$25,000,000 plus applicable judgement interest payable by November 28, 2016. The MSA can confirm that the second payment was made on November 24, 2016 to the General Revenue Fund.

Under the legislation the MSA is able to publish guidelines. Currently the MSA has a single guideline in force, the Offer Behaviour Enforcement Guidelines (OBEGs). Plans to consult on these guidelines in 2016 were postponed given the broader changes being contemplated in the Alberta electric system.

3 Promotion of Compliance and Accountability

The MSA promotes compliance and accountability through a variety of means including outreach with market participants, adopting processes that encourage accountability and where necessary issuing fines where rules or reliability standards have been breached.

3.1 Promotion of compliance and accountability through outreach

During the year the MSA meets regularly with market participants seeking guidance or feedback. The MSA also presents to industry groups and speaks at industry conferences. Opportunities to meet with stakeholders and present at conferences provide a low cost way for the MSA to re-enforce the importance of compliance and accountability within the markets it monitors.

During 2016, MSA staff also spoke at industry conferences and meetings, including the Alberta Compliance Discussion Council, Alberta Power Summit, Alberta Power Symposium, Canadian Energy Research Institute, BMO Alberta Power Luncheon, the Alberta Federation of REAs Annual Conference and the Alberta Direct Connect industrial load group quarterly board meeting.

² [AUC Decision 3110-D03-2015](#).

3.2 Compliance with market rules and reliability standards

The MSA's compliance approach with respect to market rules and reliability standards is directed at the prevention of future harm through the enforcement of appropriate standards of conduct and care. The MSA has established a process that, in conjunction with AUC rules, provides incentives for robust internal compliance programs, self-reporting and mitigation plans. During 2016 the MSA conducted a review of its compliance process to ensure it remained relevant and consulted with stakeholders on a number of refinements. Updated [procedures](#) were posted on October 19, 2016.

Since 2008, the MSA's work enforcing market rules and reliability standards has resulted in approximately \$1.7 million in financial penalties being levied on market participants. Detailed results for 2016 are the subject of a separate MSA report, [Compliance Review 2016](#) published on February 22, 2017.

3.3 Compliance with Code of Conduct

All distributors and regulated rate providers of electricity and natural gas in Alberta must have an approved Code of Conduct compliance plan. This primary goal of the Code of Conduct is to ensure non-discriminatory access to customers for all retailers (no preferential access to affiliated retailers of the distributor) and privacy of customer information.

On January 1, 2016 AR 58/2015 Code of Conduct Regulation came into force under both the Electric Utilities Act (EUA) and Gas Utilities Act (GUA). This new regulation is administered by the Alberta Utilities Commission (AUC). Previously the MSA had responsibility for the Code of Conduct Regulation under the EUA whilst the AUC was responsible for that under the GUA.

By April of 2016, the MSA had received final Code of Conduct Compliance reporting for 2015 and passed that on to the AUC. With the MSA's administration of the Code of Conduct Regulation ended the MSA revoked a guideline and a number other notices to market participants. During the year, MSA staff worked with the AUC to ensure a smooth transition. While now administered by the AUC, the MSA may still initiate investigations as a result of complaints or referrals related to the Code of Conduct approved for each retailer.

People Development

The MSA is staffed by a small but dedicated team of professionals with depth of expertise in wholesale and retail electricity markets drawing from diverse backgrounds including economics, law, engineering, and finance. At the end of 2016 the MSA staff consisted of 13 permanent staff, unchanged from 2015. The MSA had planned to add to its permanent staffing complement in 2016 but has postponed those plans given the current economic climate. During the year the MSA was able to rely on additional legal expertise via a secondment from the Alberta Utilities Commission, the recruitment of two interns until May 2017 and reassigning responsibilities among existing staff. The MSA has continued its focus on staff retention by encouraging staff to pursue relevant training opportunities and providing flexibility around working hours.

4 Strategic Review

During 2016, the MSA reviewed and consulted with stakeholders on amendments to external procedures related to MSA Investigations, Compliance activities and Stakeholder Consultations. The reviews focussed on whether the content in these documents remained relevant or could be updated and clarified. The MSA also conducted a review of internal policies relating to employees. A new policy structure was adopted and a number of policies were updated to ensure they were clear and effective. This work is now largely complete. In 2017 the MSA plans to work on procedures related to business continuity and security.

Most issues that come to the MSA's attention are addressed through an issue assessment process. The MSA also reviewed this process with a view to improving process efficiency and record keeping. In 2017 the MSA intends to continue this work to ensure it can deal with a variety of assessments thoroughly and with minimal delay.

5 Enhancing Use of Technology

During 2016 the infrastructure underlying the MSA's monitoring dashboards was overhauled to allow a more rapid and consistent development of new monitoring tools. By mid-year this work was largely complete with a significant number of new monitoring tools being deployed during the second half of 2016. More tools will be developed in 2017 as needs are identified.

The MSA completed the rollout of a new record management system covering all areas its activities. This system makes it significantly easier for the MSA to manage MSA records, track progress on different issues and collaborate with other MSA staff. For 2017 the focus for the MSA will be to address existing records contained on the MSA website with a view to facilitating improved access and management.

6 Financial Statements

Due primarily to the recovery of \$4.3 million in costs in late 2015 in respect of proceeding 3110, the MSA had a substantial deferral of contributions into 2016. Consequently, the MSA drew no operating revenue from the 2016 energy market trading charge to fund its operations. After meeting its 2016 operating and capital expenses, the MSA continued to defer prior period contributions of approximately \$1.9 million into 2017. This amount of deferred contributions offset approximately half of the MSA's 2017 operating budget resulting in a lower than otherwise MSA component of the energy market trading charge in 2017 following no trading charge contribution in 2016.

The MSA audited financial statements for the year ended December 31, 2016 follow. The format of the financial statements reflects accounting standards for not-for-profit organizations.

Market Surveillance Administrator

Financial Statements
December 31, 2016 and 2015



March 1, 2017

Independent Auditor's Report

To Management of Market Surveillance Administrator

We have audited the accompanying financial statements of Market Surveillance Administrator, which comprise the balance sheets as at December 31, 2016 and December 31, 2015 and the statements of operations and cash flows for the years then ended, 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 audits 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.

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



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Market Surveillance Administrator as at December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Market Surveillance Administrator

Balance Sheets

As at December 31, 2016 and 2015

	2016 \$	2015 \$
Assets		
Current assets		
Cash	2,458,330	5,305,158
Contributions receivable	-	15,555
Prepaid expenses and deposits	35,417	33,095
	<u>2,493,747</u>	<u>5,353,808</u>
Capital assets (note 3)	73,138	62,299
	<u>2,566,885</u>	<u>5,416,107</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	440,219	276,171
Deferred contributions (note 4)	2,126,666	5,139,936
	<u>2,566,885</u>	<u>5,416,107</u>
Net assets (note 1)	<u>2,566,885</u>	<u>5,416,107</u>

On behalf of the Corporation

/s/ Matt Ayres

Matt Ayres
Market Surveillance Administrator

/s/ Doug Doll

Doug Doll, Chief Financial Officer
Market Surveillance Administrator

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

Market Surveillance Administrator

Statements of Operations

For the years ended December 31, 2016 and 2015

	2016 \$	2015 \$
Revenue		
Contribution from the Alberta Electric System Operator (note 4)	3,196,426	4,038,597
Interest and other income	7,485	-
	<u>3,203,911</u>	<u>4,038,597</u>
Expenses		
Salaries and benefits	2,182,107	2,289,018
Consultants and audit	35,708	44,469
Legal fees	524,414	1,228,602
Operating, office and administrative	428,299	454,933
Amortization	33,383	21,575
	<u>3,203,911</u>	<u>4,038,597</u>
Excess of revenue over expenses	<u>-</u>	<u>-</u>

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

Market Surveillance Administrator
Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016 \$	2015 \$
Cash provided by (used in)		
Operating activities		
Net results for the year	-	-
Item not involving cash		
Amortization	33,383	21,575
Changes in non-cash working capital		
Decrease (increase) in contributions receivable	15,555	(15,555)
(Increase) decrease in prepaid expenses and deposits	(2,323)	5,049
Increase (decrease) in accounts payable and accrued liabilities	164,048	(856,837)
(Decrease) increase in deferred contributions	(3,013,270)	3,764,394
Cash provided by operating activities	<u>(2,802,607)</u>	<u>2,918,626</u>
Investing activity		
Expenditures on capital assets	<u>(44,221)</u>	<u>(58,791)</u>
(Decrease) increase in cash	(2,846,828)	2,859,835
Cash – Beginning of year	<u>5,305,158</u>	<u>2,445,323</u>
Cash – End of year	<u>2,458,330</u>	<u>5,305,158</u>

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

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2016 and 2015

1 Nature of business

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 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).

Cash

Cash consists of cash in bank less outstanding cheques.

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2016 and 2015

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 and equipment	Straight-line	5 years

Income taxes

No provision has been made for income taxes as the Market Surveillance Administrator is managed in such a way that on an annual basis, no profit or loss results from its operations as set out in the Alberta Utilities Commission Act of the Province of Alberta.

Financial instruments

Financial instruments are initially measured at fair value and subsequently at its amortised cost. Financial instruments are mainly comprised of cash, contributions receivable, deposits and accounts payable and accrued liabilities. Due to the current nature of the MSA's financial instruments, fair value approximates the carrying value. It is management's opinion that the MSA is not exposed to significant interest rate, currency or credit risks associated with these financial instruments.

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 operates 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 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. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using management's best judgement. Actual results could differ from those estimates.

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2016 and 2015

3 Capital assets

			2016	2015
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer hardware	150,544	138,503	12,041	18,444
Computer software	75,329	51,258	24,071	26,404
Furniture and equipment	163,569	126,543	37,026	17,451
	<u>389,442</u>	<u>316,304</u>	<u>73,138</u>	<u>62,299</u>

4 Deferred contributions

Contributions 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 contributions are deferred to or accrued for future years.

	2016 \$	2015 \$
Opening balance – January 1	5,139,936	1,375,542
Contributions	-	3,475,448
Legal settlement	-	4,327,543
Revenue recognized in the year	<u>(3,196,426)</u>	<u>(4,038,597)</u>
	1,943,510	5,139,936
Contribution for January	<u>183,156</u>	-
Closing balance – December 31	<u>2,126,666</u>	<u>5,139,936</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:

	\$
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

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2016 and 2015

office services. These services are provided for a monthly fee of \$3,860, plus an hourly fee for special projects. Either party may terminate the agreement on 90 calendar days' notice to the other party.

6 Credit facility

The Market Surveillance Administrator has a demand operating facility. Under the terms and conditions of this facility, the MSA can borrow up to \$300,000 (2015 – \$300,000) at the prime rate plus 0.75% (2015 – 0.75%) of interest. No pledges of security are required from the MSA for the facility and no amount was drawn on this facility at year-end.