



NOTICE TO MARKET PARTICIPANTS AND STAKEHOLDERS

Date: March 7, 2012

Re: State of the Market Report – Advisory Group

The MSA noted in its Q4 2011 report that it had commenced work on a state of the market report. The purpose of the report is to comment on the state of competition in the wholesale Alberta market from a longer term perspective based on established market metrics and benchmarks. The starting point will be to seek advice from stakeholders on the scope of the work and framework of analysis. To that end the MSA is setting up an advisory group to be chaired by Harry Chandler.

Advisory Group

The advisory group is intended to provide front end advice and ensure that the data and analysis leading to the report are objective and helpful. The MSA is also planning broader stakeholder sessions associated with the report. Ultimately the state of the market report will be a MSA document, but the advice and guidance of interested parties will be very much welcomed.

The advisory group will consist of six representatives drawn from the major constituencies and agencies shaping the Alberta market. One each from:

- Generation participants
- Load participants
- Inter-jurisdictional trading participants
- Forward market participants
- Department of Energy
- Alberta Electric System Operator

Individuals wishing to participate on the advisory group should contact matt.ayres@albertamsa.ca by **March 16, 2012**.

We are looking for participant representatives with a sound knowledge of the market and the ability to see beyond their constituency interests in support of Alberta's vision of a fair, efficient and openly competitive market. Participation in the advisory group

will require some commitment of time. It is anticipated that the advisory group will meet weekly between late March and the end of April. Continuity is important and substitute or alternative members will be discouraged. The MSA will consider the advice of the group and then present the scope of the work and framework of analysis at a stakeholder meeting in late April or May.

State of the Market Initiatives Already Underway

The MSA has already initiated several projects that will likely feed into its assessment of the market. In each case the MSA welcomes stakeholder assistance. It is anticipated that as these reports are completed they will be released on the MSA's website.

Load survey – The MSA has observed a reduction in forward market liquidity that in part seems to be associated with a low level of forward contracting by industrial loads. The MSA has been working on a survey questionnaire that is intended to identify impediments to forward contracting. The MSA hopes to conduct this work in conjunction with industry associations that represent load. Stakeholders interested in offering suggestions on the design of the questionnaire are invited to contact jenny.chen@albertamsa.ca.

Impediments to generation investment – As part of the State of the Market assessment the MSA wishes to investigate whether there are impediments (barriers to entry) to independent power producers or investment from power companies not currently active in the Alberta market. The MSA is considering the appropriate methodology for resolving this question (e.g. survey of lenders). Stakeholders interested in assisting with the design of the survey are invited to contact richard.penn@albertamsa.ca.

Supply cushion methodology – Since Q3 2010 the MSA has been using a supply cushion methodology to identify events of interest. The MSA completed a body of work examining the robustness this methodology and alternate parametric and non-parametric methodologies. The MSA has invited stakeholders to participate in a technical working group (see separate [notice](#)).

Market shares and market power –The MSA has been working on a report evaluating the efficacy of market concentration metrics. We are planning to release this work in conjunction with the MSA's annual assessment on offer control. The assessment is usually conducted in May of each year but the MSA is intending to move the assessment forward to April in 2012, with an expectation of releasing the combined report in May. Separate notice on the timing of the offer control assessment will follow in due course.

Long run marginal cost – The cost of new entry or, more formally the long run marginal cost, is clearly an important metric in assessing the state of market. The MSA has regularly published a ‘net revenue’ analysis and similar work has been published by the AESO and IPPSA. Cost assumptions differ as do scenarios considered. The MSA has started work on a comparison of the various approaches used. The MSA welcomes the assistance of stakeholders in identifying appropriate cost inputs for different technologies and scenarios (e.g. cost differences between brown field and green field sites). Please contact richard.kendall-smith@albertamsa.ca who will be coordinating this project.

We appreciate your participation in these matters.

/s/ Matt Ayres

Chief Economist