

December 18, 2007

TO ALL INTERESTED PARTIES:

Notice Re: MSA Review of the Regulated Rate Option (RRO)

As noted to industry in the MSA's fall Stakeholder meeting, the MSA undertook a review of outcomes and progress of the new RRO implemented in July 2006. This review was conducted independently from a review conducted by the Department of Energy which also took place during 2007. The MSA review focused on implementation of the energy price setting plans of the principal RRO providers in Alberta, including Epcor Energy Alberta Inc.(Epcor), Enmax Energy Corporation (Enmax), and Direct Energy Regulated Services (Direct Energy).

Background

Alberta wire owners are required to make available to eligible customers in their service area the option of being supplied electricity services in accordance with a regulated rate tariff instead of purchasing electricity services from a retailer. A new Regulated Rate Option Regulation (AR 262/2005) was approved in December 2005, setting out the framework by which RRO rates were to be determined beginning July 1, 2006.

In the interest of moving the RRO toward a "market-based" rate, Regulation 262/2005 directed wire owners to submit for approval a proposed regulated rate (RRO) tariff comprising a transition rate energy price setting plan (EPSP) which would specify how transition rates would be determined through the first 5 years under the new Regulation (July 1, 2006 – July 1, 2010). In general, transition rates were to be determined through a combination of monthly and long-term energy pricing where the month-ahead component would begin in year 1 as 20% of the rate basis and increase by 20% in each subsequent year until the rate basis would be 100% month-ahead beginning not later than July 1, 2010.

Enmax, Epcor, and Direct Energy requested and were granted approval by the Alberta Energy and Utilities Board (EUB) to conduct negotiated settlements with consumer representative groups (collectively known as the Consultation Parties). These public proceedings took place through the early part of 2006 toward the EUB deadline of April 1, 2006 for submitting energy price setting plans to the EUB for approval. The energy price setting plans were approved at the end of April, 2006, whereupon those RRO providers began to implement the energy procurement mechanisms contained in their plans in preparation for calculation and filing of the first monthly RRO rate under the new Regulation for July 2006.

Scope of Review

The MSA review involved two phases: 1) implementation testing; and 2) a focused audit of the RRO rate calculation applicable to eligible residential customers. The implementation testing involved an examination of whether the implementation of the energy price setting plans was balanced in terms of direction from both the RRO provider(s) and the Consultation Parties who represent various consumer groups. The focused audit of the residential RRO rate calculation involved a detailed review of the rate filing for a selected month. The overarching aim of the review was to determine whether the RRO providers are adhering to their energy price setting plans and that their implementation process was conducted fairly. The structure of the energy price setting plans and the policy framework of the RRO was outside the scope of this review.

In the opinion of the MSA, the three principal RRO providers are in good faith implementing their energy price setting plans as approved. More detailed feedback has been provided to those RRO providers. The MSA has chosen not to fully disclose data and analysis forming the basis of its review findings, respecting confidentiality and perceived commercial sensitivity of certain data and information provided to facilitate its review.

The MSA notes that the RRO providers have been open and cooperative in the course of this review, and thanks those parties and other stakeholders for their time and assistance in conducting this work. The MSA wishes to assure industry that it will continue to monitor RRO outcomes in accordance with its mandate.

No specific feedback is required in relation to the matters discussed in this notice. However, please feel free to contact the MSA with any questions or comments.

Yours truly,

“Original signed”

W.W. (Wayne) Silk
Vice-President, Chief Operating Officer
Market Surveillance Administrator