

MARKET SURVEILLANCE ADMINISTRATOR

Fall 2006 Stakeholder Meeting

Edmonton, October 3, 2006

Calgary, October 4, 2006

Today's Agenda

Review – Wayne Silk

- July 24 Event Report
- Investigation report on TPG breach
- Complaint under Section 73 of the EUA
- Stakeholder Engagement- Principles and Framework

Ongoing Activities

- Code of Conduct Audits – Wayne Silk
- RRO monitoring – Doug Doll
- AS market analysis – Jenny Chen

Other updates – Wayne Silk

- Staffing changes
- Update to websites

Questions

July 24 Event Report

- Released on August 9, 2006
- Main findings:
 - Market prices appropriately reflected the extreme tightness of the system
 - No evidence of generation electing not to generate when it was able to do so
 - Root cause – generation stranded from load by transmission problems
- High level of cooperation received from participants following the 24th

July 24 Event Report

- MSA has continued to examine the market response during the period preceding and after July 24, 2006
- Some of our findings will be reported in the next Quarterly report

Investigation on TPG

- Investigation concluded on August 23, 2006 into trading activity in November 2005
- Trading activity occurred prior to disclosure of non-public outage information to the AESO and in breach of the Trading Practices Guideline (TPG)
- Investigation report is available on the MSA website

Investigation on TPG: Settlement

- No material damage from trading activity, other than loss of market confidence
- Negotiated settlement:
 - Notice acknowledging activities
 - Implementation of policies and procedures to ensure TPG compliance
 - Report to MSA on compliance plan and address any deficiencies
 - Host a speaking/education event for the benefit of the industry

Section 73 Complaint

- Filed by TransAlta Corporation on November 30, 2005.
- Decision available on the MSA website
- Two complaints:
 - First complaint: refused in part, the MSA directed to amend Investigation process to provide additional clarification within 60 days
 - Second complaint: refused

Stakeholder Engagement

- Developed Principles and Process for Stakeholder Engagement around public projects (including the development of guidelines)
- Other debates need to occur

Ongoing Activities

- Code of Conduct Audits
- RRO Monitoring
- Ancillary Services Market Analysis

Code of Conduct Audits

- MSA / Grant Thornton well on the way to completing this year's audits
- Anticipating this will be the last year of the MSA involvement of audits for the 'big three'
- Working with the EUB to enable a smooth handover
- Will continue to work with REA's

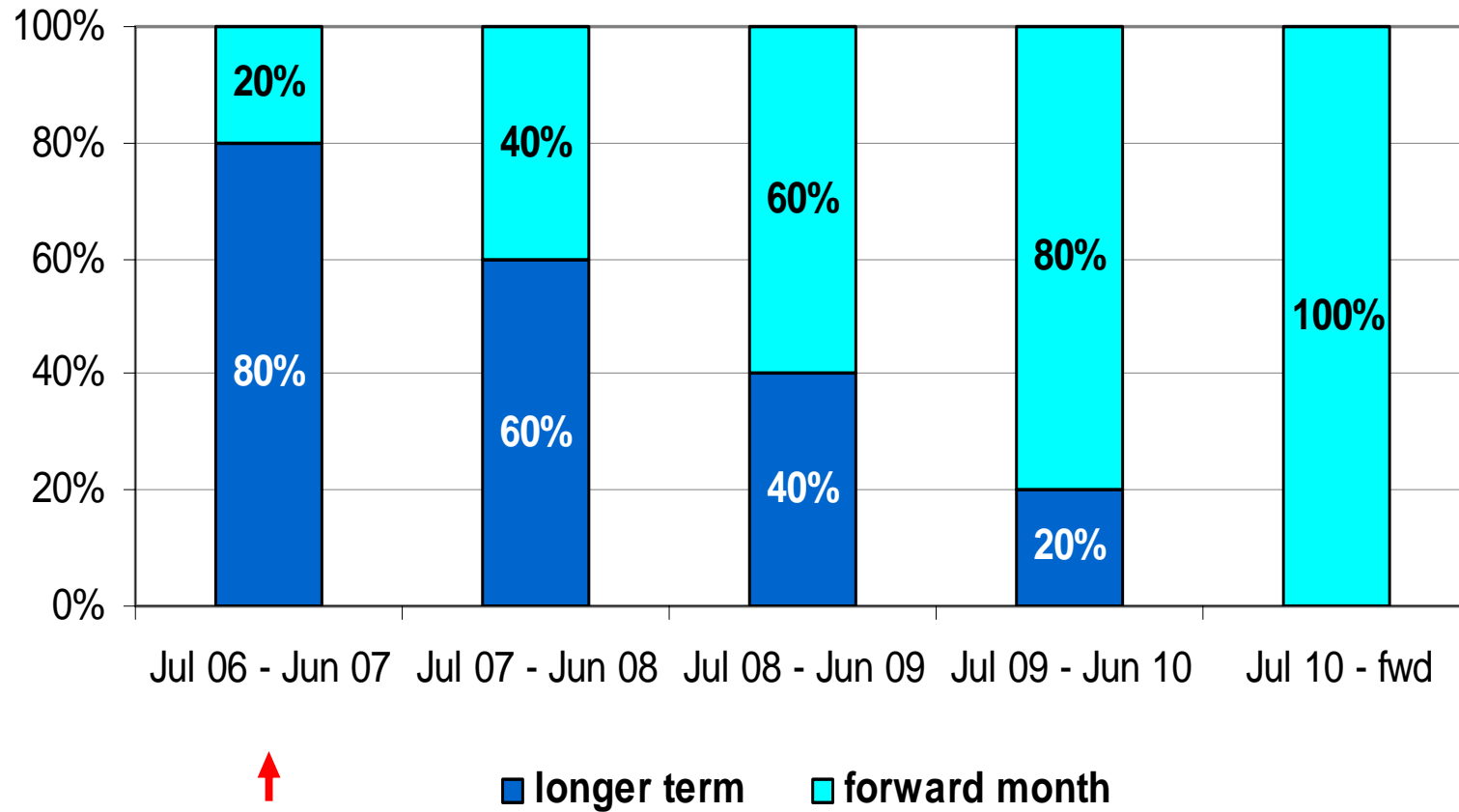
RRO Monitoring

Doug Doll

Background

- New Regulated Rate option regulation (AR/262/2005) ushered in transition rates over the next 5 years
- Gradually achieve more market sensitive RRO to encourage retail market development
- Energy price setting plans negotiated by Wire owners and Consumer Reps then approved by AEUB

Background



MSA Role / Interest

- Monitor to ensure that the procurement process is fair & competitive
- MSA March '06 Review Report
- Enhance clarity and transparency of the process where possible
- Watch for areas of concern & impacts on market overall

Procurement Process

- Enmax, Epcor models most similar
 - RFP auctions (80%)
 - Month-ahead procurements (20%)
- Direct Energy process somewhat different

RFP Auctions (80%)

- Participants thought well of auction process

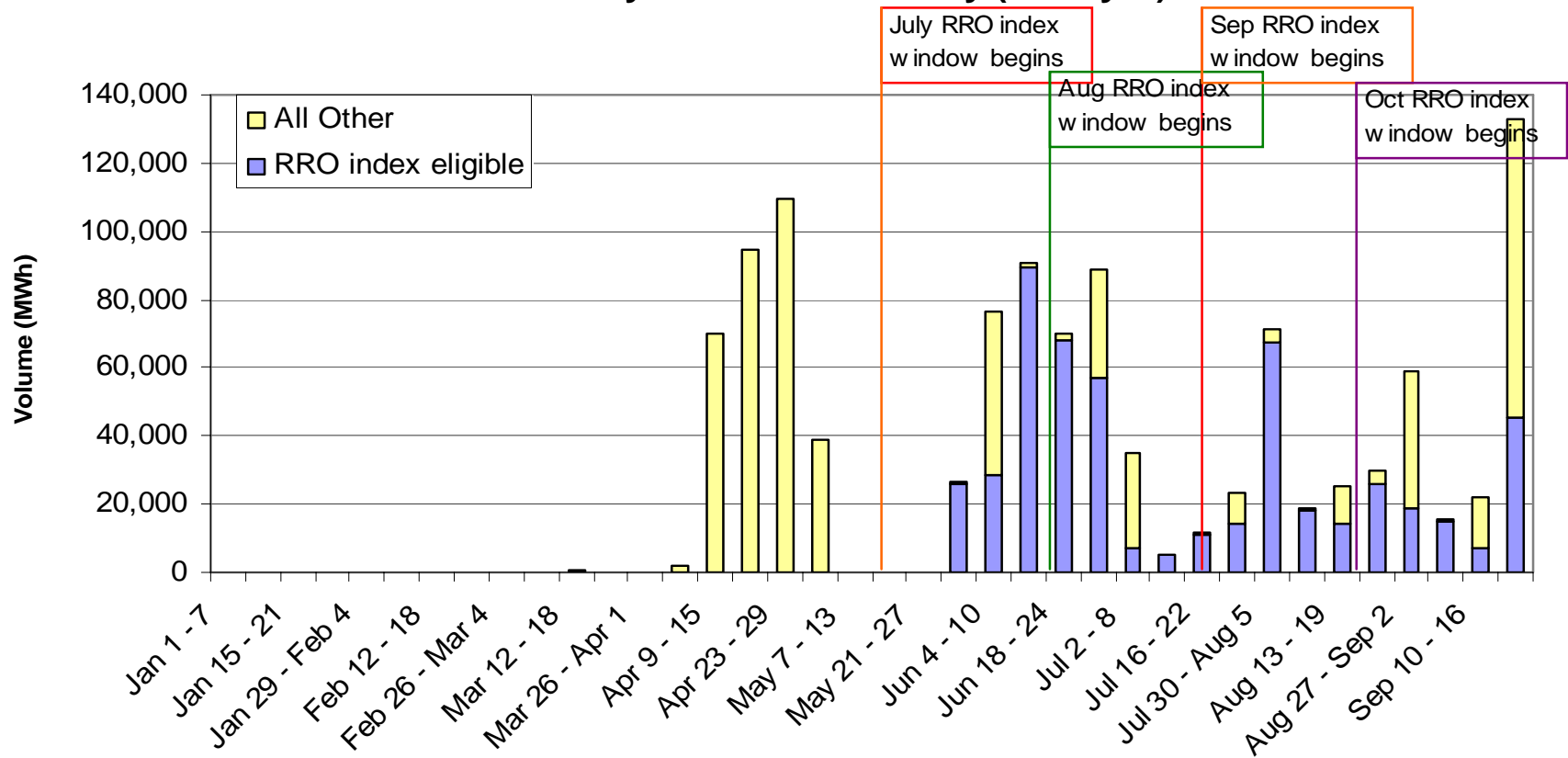
- strong participation
- active bidding during sessions
- pricing consistent with other fwd market indicators

Competitive

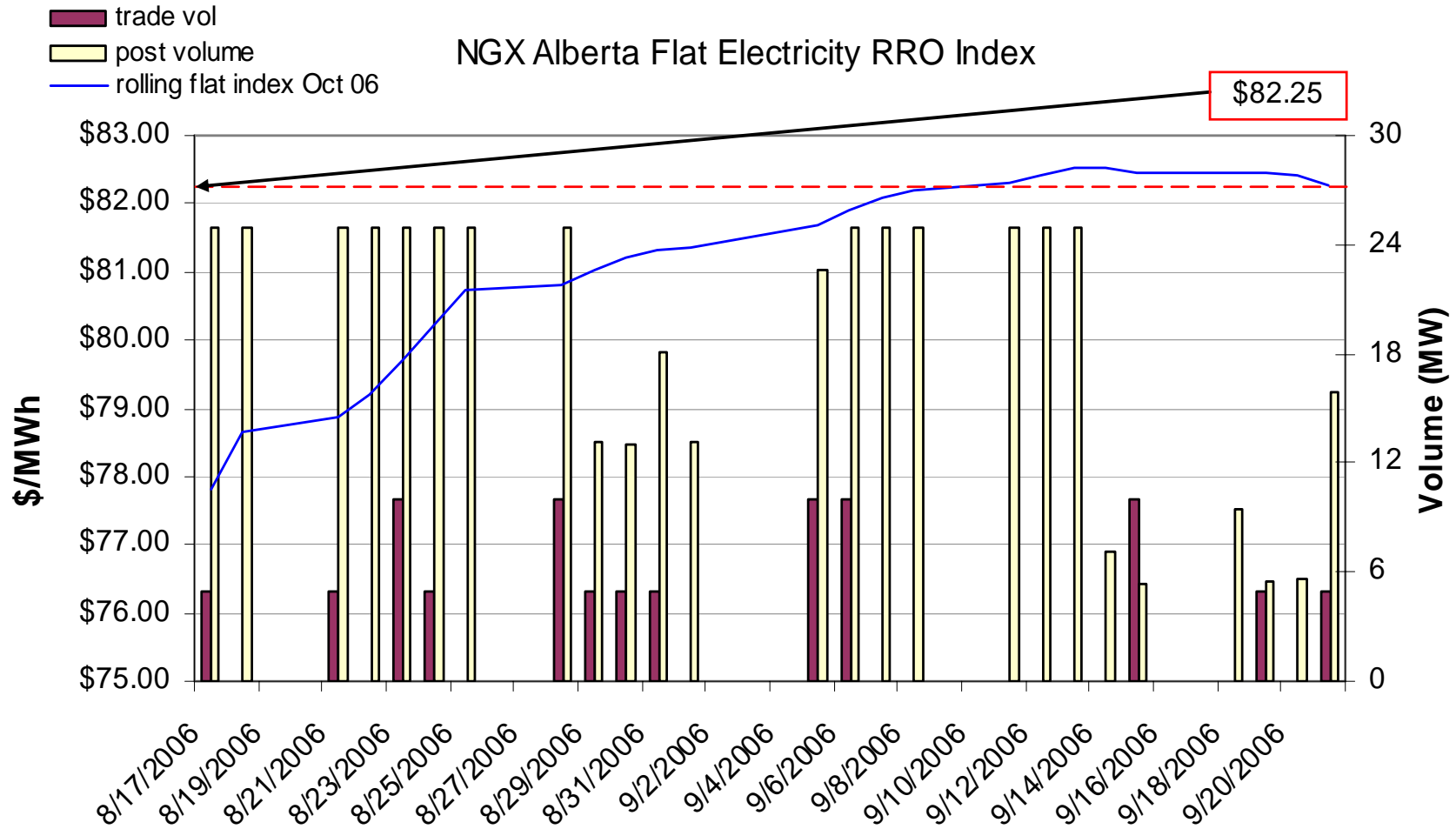
Forward Month Volumes (20%)

RRO eligible volumes adding to fwd market liquidity

NGX weekly Fwd Trade Activity (2006 ytd)

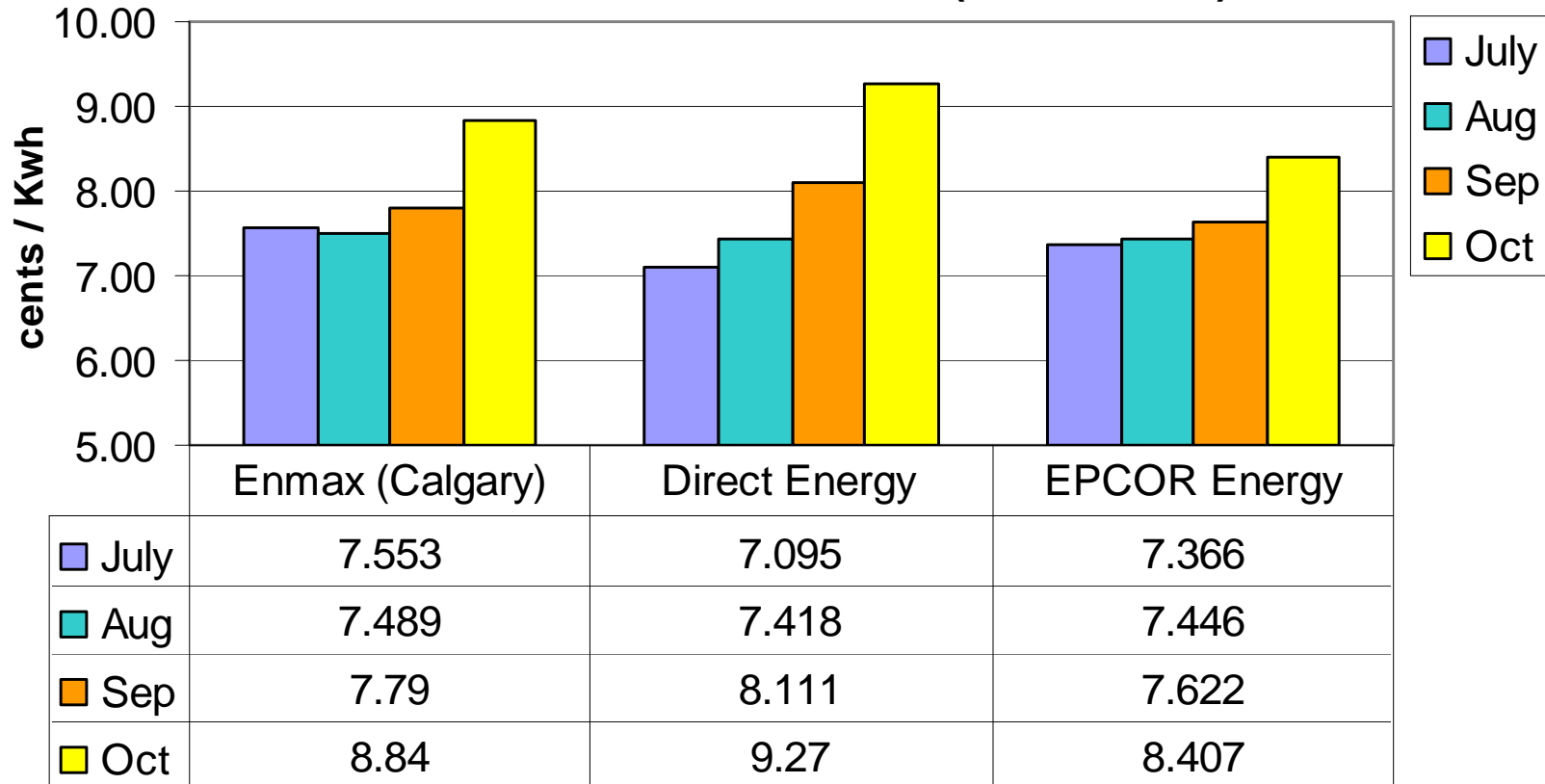


RRO Monitoring



RRO Monitoring

Residential RRO Rates (Jul - Oct '06)



Going Forward

- MSA will continue to monitor & comment on RRO process via quarterly & annual reports
- RRO providers & other consultation parties have been co-operative & helpful to MSA

Ancillary Services Market Analysis

Jenny Chen

Why AS Market

- Complicated market

Active Reserve	Standby Reserve	Examples of Technical Requirement
Regulating	Regulating	Synchronized to the grid. Able to accept control signals from the AGC. Response to AGC within 28 seconds.
Spinning	Spinning	Synchronized to the grid. Deliver power in 10 mins upon receiving the AS Directive.
Supplemental	Supplemental	Deliver power in 10 mins upon receiving the AS Directive

Why AS Market

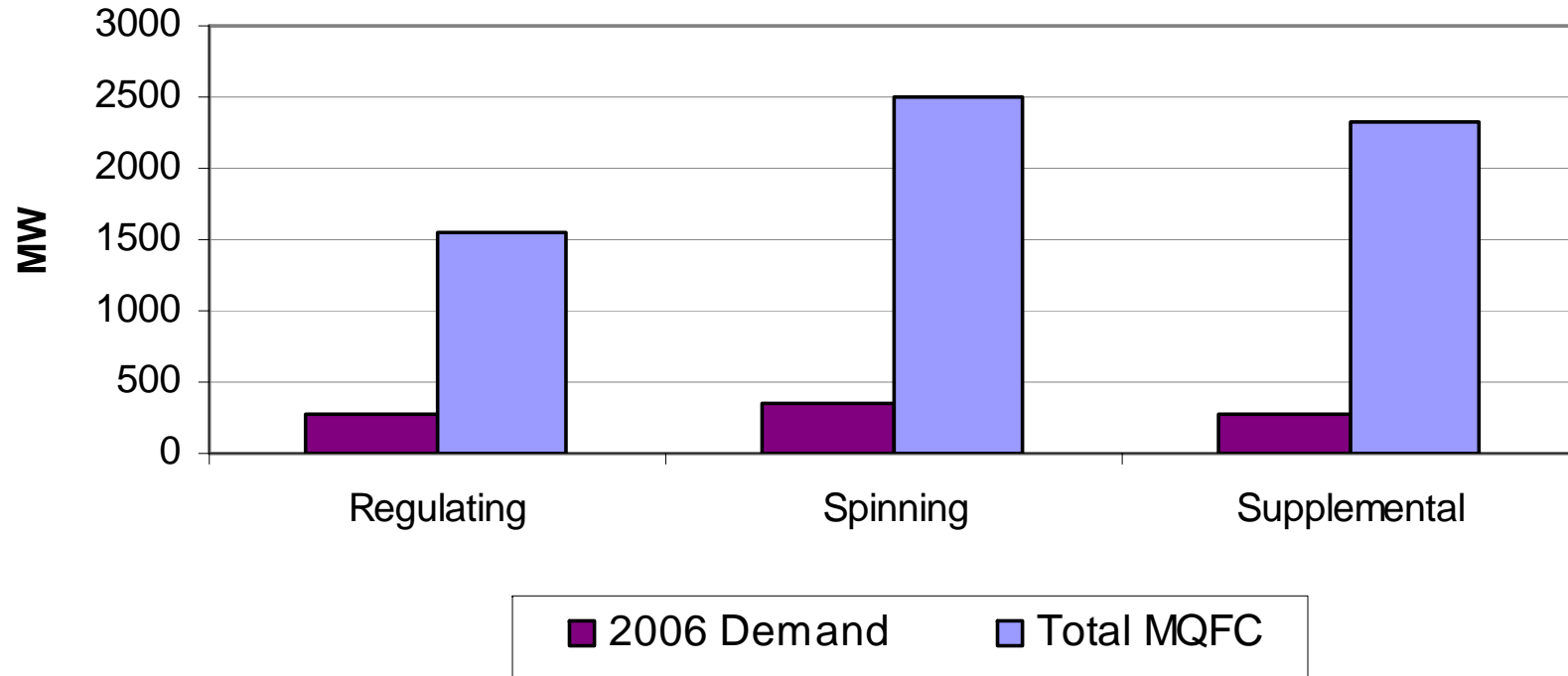
- Market structure
 - A single buyer
 - Two markets – Watt-Ex and OTC

Why AS Market

- Interesting fundamentals
 - High level of capacity relative to demand
 - Concentration in capacity

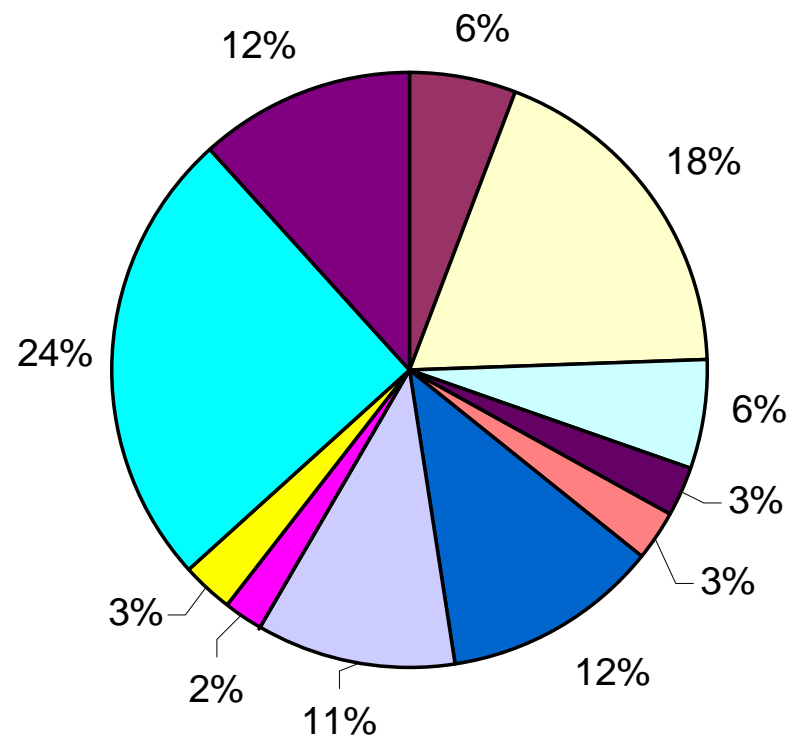
High Level of Capacity

2006 Average Hourly Demand vs. Available MQFC



Concentration in Capacity

Share of Spinning Reserve MQFC



Past MSA Studies

– Reports on spinning reserve market

➤ Spinning Reserve Market Event Report (Jan 2004)

➤ Active Spinning Reserve Review (Aug 2004)

More Recent Work

- Changes in off-peak price differentials
 - Observed greater price differentials in Q1 2006
 - Caused by increased competition in spinning and supplemental reserve markets

Topics of Interest

- Single buyer issue
 - Does it cause similar problems to those a single buyer without an obligated quantity to buy would cause?
- Two markets issue
 - Is there a preference of one to the other? If there is, what impact does it have on market efficiency?
- Choices of different participants with different assets
 - e.g. why sometimes coal-fired units provide on-peak AS?

Output of the Study

- Improved monitoring tools
- May lead to an MSA report
- Work in progress...welcome input from the participants

Other Updates

Staffing

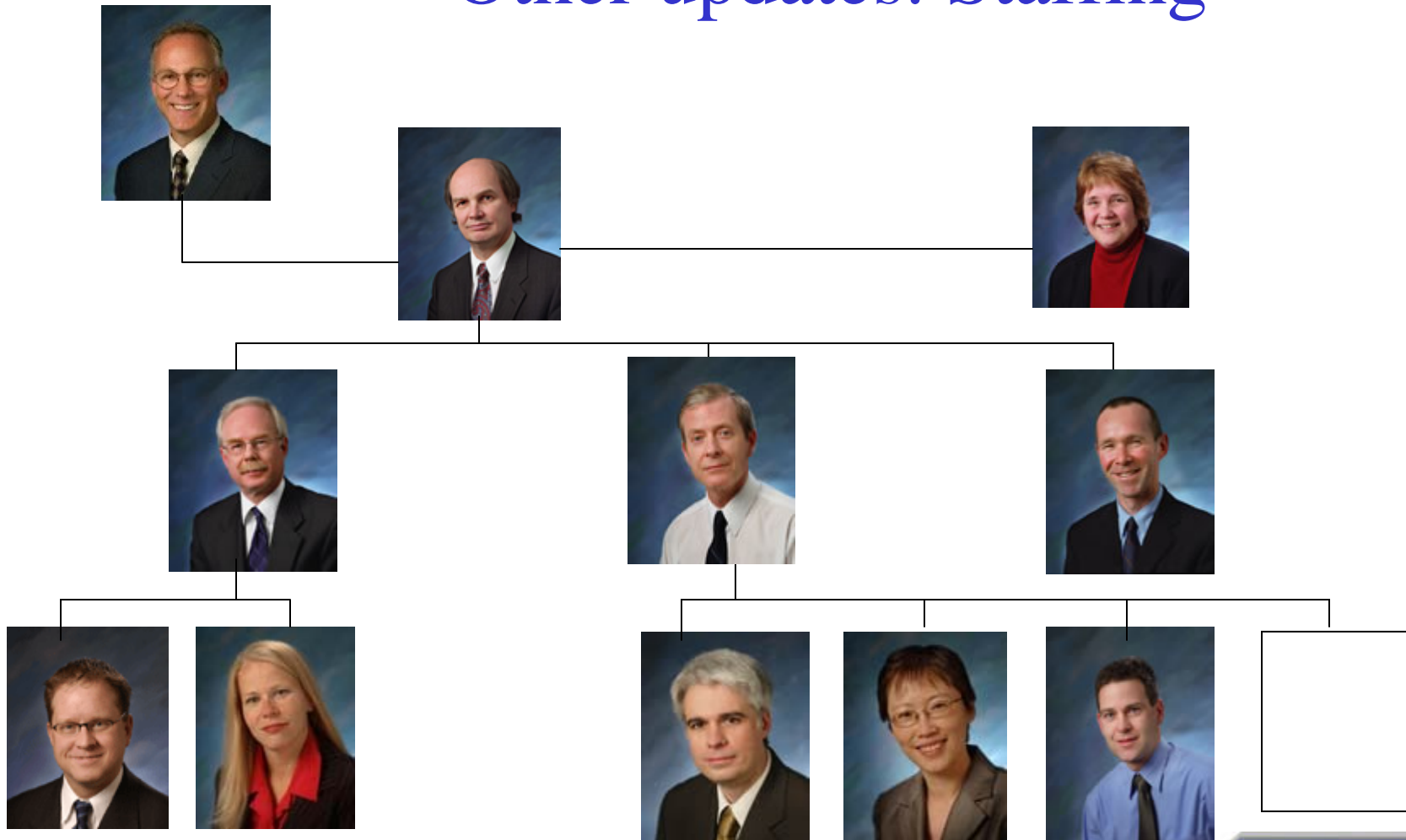
Website

Other updates: Staffing

- Continues to be a challenge: three new hires and one departure

- Welcome three new members to our team:
 - Jenny Chen, Senior Analyst
 - Kerry Snelson, Analyst
 - Janene Taylor, Analyst

Other updates: Staffing



Other updates: Website

- Minor changes to website to reflect new conventions for MSA papers
- **Notices:** All new reports will be accompanied by a notice providing information on:
 - *Why* the MSA was motivated to produce it
 - *What* participants are supposed to do with it, i.e. is it just for information or are we actively seeking feedback
- **Re-organization:** e.g. new section for ‘Processes’ and ‘Stakeholder consultation’

Questions?