



Report to the Minister

For the Year Ending December 31, 2013

March 12, 2014



March 12, 2014

The Honourable Diana McQueen
Minister of Energy
323 Legislative Building
1088 – 97 Avenue
Edmonton, Alberta T5K 2B6

Dear Minister:

RE: Annual Report for 2013

It is my pleasure to submit the Annual Report of the Market Surveillance Administrator for the year ending December 31, 2013. The Report is provided to you pursuant to subsection 38(1) of the Alberta Utilities Commission Act.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Harry Chandler', is written over a faint blue line.

Harry Chandler
Market Surveillance Administrator

cc: Willie Grieve, Chair Alberta Utilities Commission

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1 Introduction

This Annual Report for 2013 is pursuant to paragraph 38(1) of the *Alberta Utilities Commission Act* that directs the Market Surveillance Administrator (MSA) to provide the Minister of Energy with an annual update “(a) reporting on its activities in the fiscal year, and (b) containing its audited financial statements for the fiscal year”. The MSA’s fiscal year coincides with the calendar year.

The first part of the Report summarizes the activities of the MSA during the year, most of which is described in more detail and available to stakeholders through individual documents on the MSA website at <http://www.albertamsa.ca/> (and cited in the Report’s Reference section). The final section presents the MSA’s financial state of affairs in 2013 and a copy of our year end financial statements audited by PricewaterhouseCoopers LLP.

As set out in the *Alberta Utilities Commission Act*, the MSA has a broad mandate to promote the fair, efficient and openly competitive operation of the electricity and natural gas markets. Aspects of the MSA’s mandate include monitoring and assessing the conduct of the various entities involved in the markets and monitoring and assessing market structures and arrangements that may affect competition. The MSA is empowered to publish guidelines to support the fair, efficient and openly competitive operation of these markets. Pursuant to subsection 20.4(4) of the *Electric Utilities Act* it may also file an objection with the Alberta Utilities Commission to a market rule on various grounds, including an adverse effect on the structure and performance of the electricity market. In its independent discretion the MSA may also investigate and seek financial penalties or other remedies for contraventions of the market rules, the Alberta Reliability Standards, or the *Electric Utilities Act* through adjudication by the Alberta Utilities Commission.

During 2013 MSA activities touched several aspects of this mandate. Highlights of these activities are summarized below under the headings Market Monitoring, Promotion and Enforcement of FEOC, and Rules and Reliability Standards Compliance.

2 Market Monitoring

In respect of its market monitoring activities, the MSA introduced new reporting platforms during 2013 in respect of both the wholesale and retail market metrics. With respect to the wholesale market, the MSA launched a publication entitled “Fast Facts” in May, 2013 to review the market fundamentals associated with anomalous wholesale electricity prices during the week of April 21 – 27. This style of reporting is intended to complement on a more timely basis, information and analysis regularly provided in MSA quarterly reporting. A new format quarterly report was also introduced in January 2013 with the publication of the Q4 2012 report. In respect of the retail market, the MSA initiated publication of market metrics for both retail gas and electricity at the end of October, 2013. This data continues to be updated and made available from the MSA website on a monthly basis.

3 Promotion and Enforcement of FEOC

The legal standard and focus of virtually all the MSA's work is FEOC, the fair, efficient and openly competitive operation of the market. Section 6 of the *Electric Utilities Act* (EUA) directs that: "Market participants are to conduct themselves in a manner that supports the fair, efficient and openly competitive operation of the market." Alberta Regulation 159/2009, the *Fair, Efficient and Open Competition Regulation* provides greater specificity on the meaning of this provision in particular areas. Equally under section 16 of the EUA the Independent System Operator (currently the Alberta Electric System Operator or AESO) is charged, among other things, "...to promote a fair, efficient and openly competitive market for electricity."

Through much of 2013, significant resources were dedicated to an investigation of market conduct which led to the filing of a Notice of Request for Hearing with the Alberta Utilities Commission (Commission or AUC) February 25, 2014. The respondents in this matter, TransAlta Corporation, Nathan Kaiser and Scott Connelly also filed complaints against the MSA with the AUC under section 58 of the *Alberta Utilities Commission Act* and all of these applications are on the public record.

In addition to enforcement of FEOC, during 2013, the MSA carried forward with efforts to address its concerns raised in late 2012 pertaining to the AESO's Historical Trading Report (HTR). The MSA is satisfied that in its current form, the HTR increases the risk of coordinated market behavior and therefore is harmful to FEOC. In consultation with stakeholders, the MSA introduced alternative ways of presenting the existing report information that would address MSA concerns. The MSA released a comprehensive assessment and report August 7, 2013 and requested a formal response from the AESO. The MSA understands further work was undertaken by the AESO but as of year-end, no response had been received.

During 2013 the MSA published MSA feedback bulletins on discrete issues as another concrete means to support and promote FEOC. One feedback note pertained to a potential sale of the Genesee PPA by the Balancing Pool, and another pertained to a matter of information sharing in the retail market. As well, the MSA held a panel-format stakeholder meeting in September, 2013 toward facilitating input on MSA areas of focus and the manner in which this work has been carried out.

4 Rules and Reliability Standards Compliance

The MSA plays a role in ensuring the good functioning of the Alberta Integrated Electric System by promoting compliance with the ISO Rules and the Alberta Reliability Standards. Detailed results for 2013 are the subject of a separate published report, *Compliance Review 2013* which was published on February 6, 2014. A key feature of 2013 outcomes was the leveling out of compliance matters addressed which continues to be driven in large measure by self-reports by market participants. This follows from our approach to promote effective internal compliance programs such that participants implement effective procedures and tools to self-identify issues and receive favorable treatment or otherwise risk having the non-compliance identified by the AESO or the MSA. The MSA issued 45 notices of specified penalty regarding ISO rules matters totaling \$60,250 as compared to 64 notices of specified penalty totaling \$107,250 in 2012. The MSA issued a further 9 notices of specified penalty in relation to Alberta Reliability Standards matters totaling \$50,000. None of the notices of penalty issued in 2013 were disputed or remained unpaid.

5 Financial Statements

During 2013 MSA expenditures came in over budget by approximately \$250,000. As required by the *Alberta Utilities Commission Act*, the MSA recognizes revenues to the extent required to match expenses in order that no profit or loss results in a fiscal year. January 2014 revenues received prior to year-end were realized to meet 2013 revenue requirements with the balance of those revenues deferred to 2014. A higher than anticipated level of legal services and outside experts were required for the MSA to effectively carry out its mandate in 2013 and adjustments have been made regarding the MSA's planning for fiscal 2014.

The audited statements of the MSA for the year ended December 31, 2013 follow. The format of the financial statements reflects accounting standards for not-for-profit (NPO) organizations.

Market Surveillance Administrator

**Financial Statements
For the Year Ended December 31, 2013**



February 24, 2014

Independent Auditor's Report

To Management of the Market Surveillance Administrator

We have audited the accompanying financial statements of the Market Surveillance Administrator, which comprise the balance sheet as at December 31, 2013 and December 31, 2012 and the statements of operations and cash flows for the years ended December 31, 2013 and December 31, 2012, 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 audit 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.

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

PricewaterhouseCoopers LLP
Suite 3100, 111 – 5th Avenue SW, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Market Surveillance Administration as at December 31, 2013 and December 31, 2012 and the results of its operations and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP
Chartered Accountants

**Market Surveillance Administrator
Balance Sheet
As at December 31,**

	2013	2012
	\$	\$
ASSETS		
Current Assets		
Cash	699,183	744,101
Contributions receivable	-	225,702
Prepaid expenses and deposits	45,131	57,404
	<u>744,314</u>	<u>1,027,207</u>
Capital Assets (note 3)	<u>30,071</u>	<u>49,216</u>
	<u><u>774,385</u></u>	<u><u>1,076,423</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	702,710	365,392
Deferred contributions (note 4)	71,675	711,031
	<u>774,385</u>	<u>1,076,423</u>
NET ASSETS (note 1)	<u>-</u>	<u>-</u>
	<u><u>774,385</u></u>	<u><u>1,076,423</u></u>

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

On behalf of the corporation:

/Harry Chandler/
Harry Chandler
Market Surveillance Administrator

/Eeva White/
Eeva White
Legal Counsel & Secretary

Market Surveillance Administrator		
Statement of Operations		
For the Year Ended December 31, 2013		
	2013	2012
	\$	\$
Revenue		
Alberta Electric System Operator (note 4)	3,500,184	3,021,823
Expenses		
Salaries and benefits	2,175,674	2,246,871
Consultants and audit	60,600	228,477
Legal fees	905,502	111,583
Operating, office and administrative	422,304	410,753
Amortization	26,104	24,339
Total Expenses	3,590,184	3,021,823
Excess (deficiency) of revenue over expenses	-	-

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

Market Surveillance Administrator			
Statement of Cash Flows			
For the Year Ended December 31, 2013		2013	2012
		\$	\$
Cash provided by (used for):			
Operations			
Net earnings		-	-
Item not involving cash:			
Amortization		26,104	24,339
Change in non-cash operating items:			
Decrease (increase) in contributions receivable		225,702	(225,702)
Decrease (increase) in prepaid expenses and deposits		12,274	(6,560)
Increase (decrease) in accounts payable and accrued liabilities		337,318	(58,100)
Decrease (increase) in deferred contributions		(639,357)	376,301
		<u>(37,959)</u>	<u>110,278</u>
Investing			
Expenditures on capital assets		<u>(6,959)</u>	<u>(20,322)</u>
(Decrease) Increase in cash		(44,918)	89,956
Cash, beginning of the period		<u>744,101</u>	<u>654,145</u>
Cash, end of the period		<u>699,183</u>	<u>744,101</u>

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

Market Surveillance Administrator

Notes to the Financial Statements
For the Year Ended December 31, 2013

1 Nature of Operations

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 corporation 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

Cash

Cash consists of cash in bank less outstanding cheques.

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 & Equipment	Straight-line	5 Years
Leasehold Improvements	Straight-line	Lease Term

Income Taxes

No provision has been made for income taxes as the Market Surveillance Administrator is a not-for-profit organization as set out in the Alberta Utilities Commission Act of the Province of Alberta.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. Due to the current nature of the financial instruments, fair value approximates the carrying value. It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks associated with these financial statements.

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 operate 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 be collected in a subsequent period from the Alberta Electric System Operator.

Measurement Uncertainty

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. 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.

3 Capital Assets

	2013		2012	
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Net Book Value \$
Computer Hardware	121,946	116,531	5,415	18,982
Computer Software	34,706	32,653	2,053	2,797
Leasehold Improvements	11,033	8,600	2,433	5,311
Furniture & Equipment	121,194	101,024	20,170	22,126
	<u>288,879</u>	<u>258,808</u>	<u>30,071</u>	<u>49,216</u>

4 Deferred Contributions

The 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 is deferred to or accrued for future years.

	2013 \$	2012 \$
Alberta Electric System Operator		
Opening balance, January 1	711,031	334,730
Add: Contribution for February to December	2,614,492	3,183,170
Less: Revenue recognized in the year	<u>(3,590,184)</u>	<u>(3,021,823)</u>
	(264,661)	496,077
Prior year adjustment	(2,493)	
Contribution for January	<u>338,829</u>	<u>214,954</u>
Closing balance, December 31	<u>71,675</u>	<u>711,031</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:

	<u>\$</u>
2014	256,699
2015	263,437
2016	264,563
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 office services. These services are provided for a monthly fee of \$3,500, plus an hourly fee for special projects.

6 Credit Facility

The Market Surveillance Administrator has a demand operating facility. Under the terms and conditions of this facility, the corporation can borrow up to \$300,000 at the prime rate plus 0.75% of interest. No pledges of security are required from the corporation for the facility and no amount was drawn on this facility at year-end. A \$500 fee per annum is paid by MSA to maintain this facility.

7 Comparative Figures

Certain comparative figures have been restated to conform to the current year's presentation.

References

Market Surveillance Administrator

Compliance Review 2013

<http://albertamsa.ca/uploads/pdf/Archive/00-014/MSA%20Compliance%20Review%202013%20140206.pdf>

MSA Fast Facts: High Prices in April 2013

http://albertamsa.ca/uploads/pdf/Archive/0-2013/MSA%20Fast%20Facts%20Apr%202013%20to%2027_130502.pdf

MSA Feedback 2013

<http://albertamsa.ca/index.php?page=2012-7>

MSA Quarterly Reports

<http://albertamsa.ca/index.php?page=quarterly-reports>

Alberta Legislation

Alberta Electric Utilities Act, Chapter E-5.1 (2003)

http://www.qp.alberta.ca/574.cfm?page=E05P1.cfm&leg_type=Acts&isbncln=9780779747542

Alberta Utilities Commission Act, Chapter A-37.2 (2007)

http://www.qp.alberta.ca/574.cfm?page=A37P2.cfm&leg_type=Acts&isbncln=9780779747580

Fair, Efficient, Open Competition Regulation, AR 159/2009

http://www.qp.alberta.ca/574.cfm?page=2009_159.cfm&leg_type=Regs&isbncln=9780779747719



The Market Surveillance Administrator is an independent enforcement agency that protects and promotes the fair, efficient and openly competitive operation of Alberta's wholesale electricity markets and its retail electricity and natural gas markets. The MSA also works to ensure that market participants comply with the Alberta Reliability Standards and the Independent System Operator's rules.