



NOTICE TO MARKET PARTICIPANTS AND STAKEHOLDERS

Date: November 23, 2015

Re: Retail Market Update 2015

Driven by recent investment in natural gas and wind generation capacity, low wholesale natural gas prices, and moderate demand growth, average prices in Alberta's competitive wholesale electricity market have been at all-time lows in 2015. The benefits of these low prices flow directly to consumers of all types.

Residential electricity consumers are being offered historically low fixed price, multi-year competitive contracts with highly advantageous terms by retailers and low default rate (Regulated Retail Option) prices. Larger electricity consumers, from moderate sized commercial consumers to large industrial consumers, are also being offered historically low fixed-price, multi-year competitive contracts by retailers, while many of these consumers benefit by buying directly from the wholesale market.

The benefits to consumers of these market conditions also appear in the forward electricity market, where prices have been historically low for standard contracts past the end of the decade. While it is retailers and large consumers who typically buy these types of contracts, consumers benefit directly by being customers of retailers with access to low-price forward contracts and indirectly through large consumers being able to secure long-term electricity supply at low prices.

Low wholesale natural gas prices also benefit consumers directly since many households and businesses use natural gas for space and water heating, cooking, and a variety of industrial processes.

Retail Energy Markets and the Market Surveillance Administrator

The *Alberta Utilities Commission Act* assigns the MSA a broad mandate to oversee Alberta's retail electricity and natural gas markets from the perspective of competition and economic efficiency based on the standard of fair, efficient, and open competition.

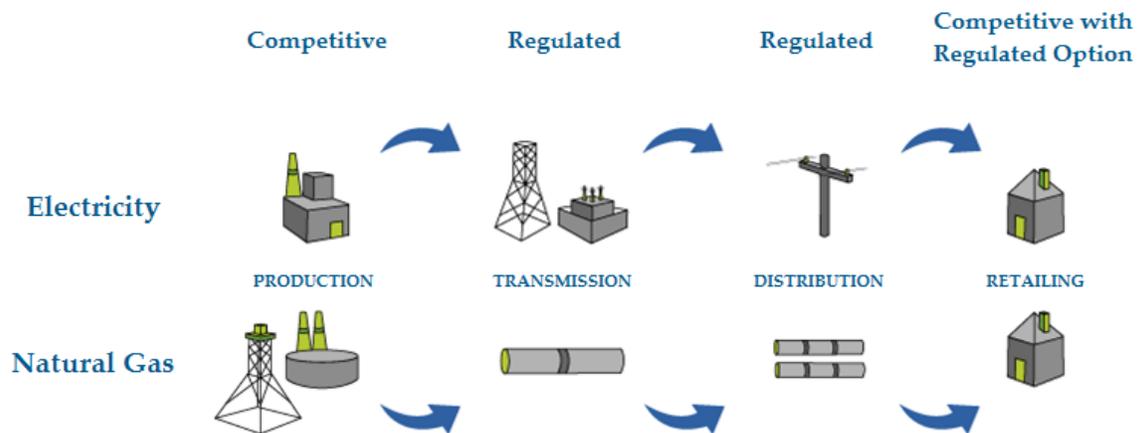
The provision of electricity and natural gas services to consumers in Alberta relies on a combination of regulation and competition. Production of the underlying energy

commodities relies on competition among firms over price and market share to drive investment decisions in the long run and output decisions in the short run.

The delivery of the commodities from their place of production—using transmission and distribution wires for electricity and pipelines for natural gas—is a regulated service. Competition is not relied on for these aspects of the market because duplication of wires and pipelines would be extremely expensive.

Electricity and natural gas retail services are provided by firms competing with one another over price, contract terms, and market share. There is also a default-rate option for residential consumers of both commodities.

The production, delivery, and retail chain described above is illustrated below.



Retail Market Update 2015

Today the MSA is releasing its [Retail Market Update 2015](#). This report updates and extends several aspects of the MSA’s report “[State of the market 2014: The residential retail markets for electricity and natural gas](#)” (November 27, 2014) which considered aspects of these markets related to competitiveness and economic efficiency. Among the key findings of the present report are:

The retail energy market is competitive

The MSA believes that Alberta’s retail electricity and natural gas markets remain competitive within the boundaries set by Alberta’s legislative and policy framework.

Low retail prices provide significant value to consumers

Competition among competitive electricity retailers has pressed the contract prices available to consumers to very low levels. It also remains the case that contract provisions are highly advantageous to consumers; for instance, most competitive

contracts have provisions that allow consumers to cancel without penalty (the retailer has no such option).

In line with low competitive contract prices, RRO prices (Regulated Rate Option prices, which are based on electricity forward prices) have also recently been at very low levels. Both of these outcomes are related to the state of competition in the wholesale electricity market, where prices have recently been at historically low levels.

Consumers buy the product that is best for them

Consistent with our previous observations, competitive natural gas contract prices are typically above the DRT price (Default Rate Tariff price, which are based on wholesale natural gas prices). As expected, the vast majority of consumers who buy natural gas by itself, i.e., not through the same contract as electricity, are on the DRT tariff. As such, retail products that do not provide the best value to consumers are not purchased by consumers.

The majority of charges on residential consumers' electricity and natural gas bills are for transmission, distribution, local access fees, and taxes, not for electricity or natural gas

For residential-class electricity consumers in 2014, the electricity itself represented between 40 and 50 percent of the typical consumer's total bill in the ENMAX, EPCOR, and FortisAlberta service territories and only 30 percent in ATCO's service territory, with non-energy charges—such as distribution, transmission, local access fees, and taxes—being the balance of charges.

For residential-class natural gas consumers in 2014, the natural gas represented between 40 and 50 percent of the typical consumer's total bill.

These fractions were highly variable across the months of the year.

Self-retailers are sophisticated market participants that participate in several areas of Alberta's electricity market

The information available on self-retailers as a whole suggests a diverse group of market participants. Interpreting the results of a voluntary survey of about one-third of what is a small population (43) is difficult. It is evident that self-retailers are fully aware of the Alberta market structure and use this knowledge to position their companies to best effect.

Additional background information regarding the MSA's work in the retail market

For a recent snapshot of the foundational features of Alberta's retail electricity and natural gas markets, see the MSA's report "[Alberta retail markets for electricity and natural gas: A description of basic structural features](#)" (July 17, 2014).

In addition to its more in-depth market assessment work, the MSA's [quarterly reports](#) report its near-term observations related to the retail market.

Yours truly,

/s/ Derek Olmstead

Senior Economist & Retail Market Coordinator