

NOTICE TO PARTICIPANTS AND STAKEHOLDERS

September 6, 2016

Re: 2016 Retail Market Reports

Today the MSA is publishing two reports related to the retail electricity and natural gas markets. The first report, [Assessment of Inter-jurisdictional Retail Rate Comparisons](#), outlines and comments on the results of recent studies comparing monthly electricity bills in municipalities and provinces between 2013 and 2016. The second report, [Trends in Regulated Retail Electricity and Natural Gas Bills](#), examines trends in various components of regulated bills between 2012 and early 2016.

The primary conclusion of the assessment of inter-jurisdictional comparisons is:

- *Rate comparisons with other jurisdictions are widely cited, but these comparisons often do not compare like with like and in the MSA's view are of questionable benefit.*

The primary conclusions of the retail bill report are:

- *Regulated energy bills in Alberta vary substantially by region and municipality*

The province is separated into four main service areas for electricity (and three for natural gas) served by different distribution utilities. Transmission and distribution charges for consumers vary dramatically by service area, primarily due to differences in population density, which affect costs. Regional differences in weather also impact energy consumption, leading to varying energy bills. Consumers are also charged access fees, imposed by municipal governments, which vary significantly by municipality.

- *Regulated energy bills have fallen, driven primarily by wholesale prices*

Since 2012, residential consumers of the regulated rate option have paid less for electricity as a result of lower wholesale prices. While transmission and distribution charges have increased over the same period, overall residential consumers' electricity bills have fallen.

Similarly, consumers have paid less for regulated natural gas products since 2014, also driven by lower wholesale prices. During this period distribution charges have increased, but this increase has been offset by lower energy charges, leading to lower bills overall.

- *Distribution and transmission costs have increased steadily*

The amount paid by residential consumers for transmission and distribution is increasing. Because energy prices have fallen considerably, not only are transmission and distribution costs increasing in absolute, their share of consumers' bills is increasing.

- *Different dwelling types face fundamentally different energy bills*

Larger homes tend to consume a greater amount of energy than smaller homes, resulting in higher overall energy bills. However, due to the existence of fixed charges that do not vary with the level of consumption, consumers with lower consumption tend to pay more per delivered unit of energy. Changes in fixed and variable rates between periods have resulted in years that bills have decreased for one type of consumer, but increased for another type of consumer.

- *The marginal cost of energy has implications for energy efficiency*

The marginal cost of energy is the cost consumers can avoid by consuming one less unit of energy. Higher marginal costs provide consumers with greater financial incentive to reduce consumption, because more costs can be avoided. Falling regulated energy rates have lowered the marginal cost of energy since 2012, which may provide fewer incentives to reduce consumption.

In addition, to promote transparency and to supplement regular retail market reporting, the MSA is publishing a [billing tool](#) that contains a comprehensive set of retail billing information for regulated electricity and natural gas bills, all drawn from publically available sources.

Yours truly,

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