

**Report to the Minister
For the Year Ending December 31, 2018¹**

April 30, 2019

¹ The MSA has made this report current to April of 2019

April 30, 2019

The Honorable Sonya Savage
Office of the Minister Energy
408 Legislature Building
10800 - 97 Avenue
Edmonton, AB T5K 2B6

Dear Minister,

Re: Annual Report for 2018

It is my pleasure to submit the Annual Report of the Market Surveillance Administrator for the year ending December 31, 2018. The report is provided to you pursuant to subsection 38(1) of the Alberta Utilities Commission Act.

Congratulations on your appointment today. Please let me know if you would like a briefing on any of the issues we face.

Yours truly,



Gordon Kaiser

Market Surveillance Administrator

Cc Mark Kolesar, Chair Alberta Utilities Commission

Table of Contents

Introduction	3
Regulatory Proceedings before the Alberta Utilities Commission	3
Implementation of a Capacity Market for Alberta	3
Balancing Pool Settlement	4
Information Sharing between Market Participants	5
Distribution System Inquiry	6
Concluded Regulatory Proceedings	7
Mothball Outage Rule	7
Code of Conduct	7
MSA Consultations	8
Offer Behaviour Guidelines	8
Advisory Opinion Program	8
MSA Investigations	8
Rural Electrification Association Investigation	8
Line Losses	8
MSA Market Reports	9
Market Shares of Installed Capacity	9
Market Shares by Uniform Capacity (UCAP)	10
Quarterly Reporting	10
The Retail Electricity Market and the Rate Cap Regulation	11
Compliance	12
Financial Statements	13

Introduction

This Annual Report for 2018 is provided pursuant to section 38(1) of the *Alberta Utilities Commission Act* (AUCA) which directs the Market Surveillance Administrator (MSA) to provide the Minister of Energy with an annual report that reports on the MSA's activities in the fiscal year and contains the audited financial statements for the fiscal year.

On September 1, 2018, Gordon Kaiser was appointed Chief Executive Officer of the MSA. Previously, he served as Vice Chair of the Ontario Energy Board for six years.

As set out in section 39 of the AUCA, the MSA's mandate is to promote the fair, efficient and openly competitive operation of the electricity and retail natural gas markets as well as the forthcoming capacity market and to bring forward issues relating to the structure and performance of those markets. Among other things, the MSA is empowered to investigate market conduct, bring enforcement actions before the Alberta Utilities Commission (AUC), and publish guidelines to support the fair, efficient and openly competitive operation of these markets. The MSA may investigate and seek administrative penalties or other remedies before the AUC for contraventions of the market rules, the Alberta Reliability Standards, the *Electric Utilities Act* (EUA), or the *Fair, Efficient and Open Competition Regulation* (FEOC Regulation).

Regulatory Proceedings before the Alberta Utilities Commission

Implementation of a Capacity Market for Alberta

On November 23, 2016, the Government of Alberta announced that it had accepted the Alberta Electric System Operator's (AESO's) recommendation to create a capacity market for Alberta. On March 27, 2017, the Deputy Minister, Energy sent a mandate letter to the MSA requesting that "the MSA provide market-related advice to support the transition to a capacity market framework." The letter also said that it "is expected that the MSA will draw on the expertise and experience from capacity markets in other jurisdictions as necessary when providing expert advice. This could include the commissioning of external analyses."

On April 24, 2018, the AESO published a draft version of its Comprehensive Market Design for the Alberta capacity market. In response, the MSA commissioned Charles River Associates to undertake an assessment of market power mitigation in the proposed capacity market. The report was made public on June 20, 2018.

Following a period of consultation with stakeholders, on January 31, 2019, the AESO filed an application with the AUC for approval of rules to implement a capacity market. The application will be heard in Proceeding 23757. Further to the request set out in the

mandate letter from the Deputy Minister, the MSA filed intervenor evidence in the Proceeding on February 28, 2019. The MSA's evidence was comprised of two reports, each from a panel of independent experts.

The first report, titled "Regulatory Oversight in the Alberta Capacity Market," provided independent expert evidence related to the issue of regulatory oversight issues in existing U.S. capacity markets. This report was prepared by Joseph T. Kelliher, former Chair, U.S. Federal Energy Regulatory Commission, David B. Patton, President, Potomac Economics, which is the independent electricity market monitor in New England, New York, the Midcontinent ISO, and the Electric Reliability Council of Texas, and Adonis Yatchew, Professor of Economics, University of Toronto and Senior Consultant, Charles River Associates. The second report, titled "Market Design Issues in the Alberta Energy and Capacity Markets," provided independent expert evidence related to certain capacity market design issues that have traditionally been the focus of MSA activities, specifically the verification data submissions by market participants and the exercise of market power.

Following consideration of other parties' intervenor evidence, the MSA filed two expert rebuttal reports on the same topics on April 4. The oral hearing in the matter began on Monday, April 22, 2019 and is expected to be completed on June 7, 2019.

Balancing Pool Settlement

A major investigation which took place in 2018 arose from complaints about the Balancing Pool's conduct related to the Power Purchase Arrangement terminations and the Balancing Pool's subsequent management of the generation assets including its offer behaviour. This investigation was publically disclosed by the MSA in May of 2017.

In August of 2018, the MSA entered into a settlement agreement with the Balancing Pool pursuant to section 44 of the AUCA. Provisions of the settlement agreement included an acknowledgement that the Balancing Pool contravened certain provisions of the *Electric Utilities Act* and the *Balancing Pool Regulation*. The primary contravention was a breach of the Balancing Pool's duty to act in a commercial matter when managing its generation assets (s.85 of the *Electric Utilities Act*).

The settlement agreement contains a non-exhaustive list of commercial activities that the Balancing Pool may elect to pursue and requires the Balancing Pool to include in its public quarterly reporting which particular commercial activities it has undertaken. The MSA has reviewed these reports and continues to monitor the Balancing Pool's behaviour since the settlement agreement was signed.

The AUC initiated a written process to consider the settlement agreement which included the MSA, the Balancing Pool and the Independent Power Producers Society of Alberta (IPPSA). The MSA has filed written argument in the proceeding and is currently awaiting the AUC's decision.

In December of 2018 IPPSA sought leave to appeal an interlocutory ruling of the AUC relating to the exclusion of its evidence. That matter has yet to be heard by the Court of Appeal of Alberta.

On April 26, 2019 the AUC issued a letter asking for parties' views on what guidance, if any, can be taken from the report prepared by the Independent Assessment Team to the Alberta Energy and Utilities Board on Implementing Deregulation of Electric Generation in Alberta regarding the remedy proposed in the settlement agreement. The MSA will make a submission on this issue on May 6, 2019 in accordance with the deadline established by the AUC.

Information Sharing between Market Participants

The *FEOC Regulation* places a number of requirements on market participants. One such requirement is that before certain information can be shared between market participants, typically in relation to a joint venture or other commercial arrangement, approval must be granted by the AUC. The MSA plays a key role in these proceedings, both in assisting potential applicants and by participating to ensure there are sufficient safeguards in place to ensure that shared information will not be used for purposes inconsistent with the competitive market. The MSA worked with a number of market participants who were preparing information sharing arrangements. Many of the applications were filed so that market participants could hire a third party to act as a 24 hour dispatch agent. The MSA participated in the following information sharing applications made to the AUC, including:

- Pembina NGL Corporation's request to share preferential information with TransCanada Pipelines;
- Canadian Natural Resources Limited's request to share preferential information with URICA Energy Real Time Ltd. and URICA Asset Optimization Ltd.;
- TransAlta Corporation's requests to share preferential information with URICA Energy Real Time Ltd.;
- Genalta III GP Ltd., request to share preferential information with URICA Energy Real Time Ltd. and URICA Asset Optimization Ltd.; and,
- Campus Energy Partners LP's application to share preferential information with URICA Energy Real Time Ltd.

Distribution System Inquiry

On December 6, 2018, the AUC established the Distribution System Inquiry stating in part:

Alberta's electric distribution system is in transition due to shifting market, technology, public policy, consumer behaviour and environmental factors. Understanding how this transition plays out, and ensuring effective management of change and its effects are central to the public interest mandate of the Alberta Utilities Commission to deliver innovative and efficient utility regulatory solutions for Alberta.

For these reasons, the Alberta Utilities Commission is conducting an inquiry to consider Alberta's changing electric distribution system. The goal of the inquiry is to take a collaborative approach to map out the key issues related to the distribution system's future, so the Commission can develop the necessary regulatory framework to accommodate the evolution of the electric grid.

The evolving nature of electric generation, consumption, storage and the distribution system has significant implications for the grid, incumbent utilities, consumers, grid managers and the regulatory framework. These are among the central matters the AUC will examine in its distribution inquiry.

The AUC stated that the Inquiry is intended to address three general questions:

1. How will technology affect the grid and incumbent electric distribution facility owners; and how quickly?
2. Where alternative approaches to providing electrical service develop, how will the incumbent electric distribution utilities be expected to respond and what services should be subject to regulation?
3. How should the rate structures of the electric distribution facility owners be modified to ensure that price signals encourage electric distribution facility owners, consumers, producers, prosumers and alternative technology providers to use the grid and related resources in an efficient and cost effective way?

The MSA proposed to call independent expert evidence from Charles River Associates to address the four specific questions above. The industry is undergoing transformation. Scale economies of central generation are being challenged by distributed energy resources (DERs). Scope economies, as between wires and DERs, are growing, blurring the line between 'natural monopoly' segments of the industry and those that are potentially competitive.

The MSA believes that increasing the range of services that can be offered by electricity local distribution companies is in the public interest. It will lead to greater and faster investment in technologies that will lead to significant cost savings.

Concluded Regulatory Proceedings

Mothball Outage Rule

In June of 2016, the AESO implemented on an expedited basis, a new ISO rule (ISO rule section 306.7 or the “Mothball Rule”) allowing market participants to physically withhold generation capacity for an extended period based on the participant’s assertion that its generation capacity could not be operated profitably under existing market conditions. The Mothball Rule was implemented as an interim measure until a stakeholder consultation process could be undertaken to fully develop a rule that would then proceed to the AUC for approval. In July 2016 and September 2017, the AESO held participant working sessions to discuss the interim rule which were unsuccessful in producing an amended rule deemed acceptable to the AESO thus a redrafted rule was not filed with the AUC for approval. Further efforts by the MSA to collaborate with the AESO on possible changes to the interim rule were also unsuccessful. As a result, the MSA filed a complaint under section 25 of the *Electric Utilities Act* with the AUC in Q1/18 (Proceeding 23427) expressing concerns that the Mothball Rule:

- did not support the fair, efficient and openly competitive operation of the market
- was not in the public interest; and
- may have an adverse effect on the structure and performance of the market.

Subsequent discussions between the AESO, stakeholders and the MSA during April 2018 led to the AESO filing an amended rule on an expedited basis. Consequently, the MSA withdrew its complaint in May of 2018.

Code of Conduct

The MSA investigated a market participant for a breach of the *Code of Conduct Regulation* which related to certain events that occurred at its customer care center. This investigation was initiated late in 2016 and was resolved by way of a settlement agreement pursuant to section 44 of the AUCA which was approved by the AUC on August 30 in Decision 23535-D01-2018.

MSA Consultations

Offer Behaviour Guidelines

In September of 2018, the MSA initiated a stakeholder consultation to consider whether a guideline on participant offer behaviour should be implemented during the transitional period before the capacity market commences. The MSA commissioned a report by CRA to address this issue. The CRA report was published in December and a meeting was held with stakeholders in January 2019 where CRA was present to address questions. The MSA is considering participant feedback and expects to make a decision shortly on whether it will move forward with an offer behaviour guideline.

Advisory Opinion Program

In October of 2018, the MSA initiated a stakeholder consultation to consider whether a voluntary advisory opinion programme would be helpful to market participants. The MSA selected Ian Nielsen-Jones, an independent consultant, to provide a report addressing how such a programme would operate and how similar programmes have worked in other jurisdictions. A meeting was held with stakeholders in February 2019 with the MSA's consultant present to address questions. The MSA is considering participant feedback and expects to make a decision shortly on whether it intends to proceed with an advisory opinion programme.

MSA Investigations

Rural Electrification Association Investigation

In April 2019 the MSA placed a Rural Electrification Association under investigation for potential breaches of the *Rate Cap (Board or Council Approved Regulated Rate Tariffs) Regulation (AR 139/2017)* and other applicable regulations. This issue was identified in the course of the MSA's oversight of the deferral account statement approval process whereby Rural Electrification Associations submit deferral account statements in order to receive reimbursement under the applicable regulation. The MSA's inquiry centers on whether the rural electrification association was overcompensated as a result of its energy price setting methodology.

Line Losses

The issue of the locational treatment of transmission line losses has a long history in Alberta. The regulatory framework in Alberta requires that the costs of lost energy associated with transmitting electricity be recovered from generators as opposed to transmission companies or the final consumers. Due to the complexities, it is impossible

to observe or measure how much of any individual generator's output is lost in the process of transmitting electricity. As a result, the AESO developed a methodology to calculate the change in total system losses resulting from changes in each generating unit's output. A line loss factor for each generating unit and the methodology used to determine those factors are enshrined in an AESO rule.

The MSA has placed the AESO under investigation regarding potential breaches of the current version of *ISO Rules Section 501.10 Transmission Loss Factors* (the Loss Factor Rule) which were self-reported to the MSA by the AESO. Specifically, the AESO has had technical difficulties related to publishing loss factors in the timeframe contemplated by the Loss Factor Rule.² The MSA believes that the parties will come to a result that is acceptable to both the AESO and the MSA in the near future.

MSA Market Reports

Market Shares of Installed Capacity

Section 5 of the *Fair, Efficient and Open Competition Regulation* (FEOC Regulation) requires that the MSA publish the market shares of installed generation capacity that is **controlled** by electricity market participants. Table 1 provides the shares as of January 31, 2019 hour ending 16, with only firms with 5% share or greater explicitly named. The largest four firms collectively control about 58% market share of installed generation capacity.

Table 1: Installed Generation Market Shares as of January 31, 2019

Company	MW	%
TransAlta	3,270	21.0%
Balancing Pool	2,284	14.7%
ATCO	1,977	12.7%
ENMAX	1,446	9.3%
Suncor	1,158	7.4%
Capital Power	1,118	7.2%
Other	4,002	25.7%
Total Dispatchable	15,254	98.0%
Total Non-Dispatchable	316	2.0%
Grand Total	15,570	100.0%

² The current issue relates to potential breaches by the AESO in 2018 and 2019 and does not relate to the historical calculations that were the subject of the litigation that was considered by the Alberta Court of Appeal most recently in *Capital Power v Alberta Utilities Commission*.

Alberta's total capacity decreased 318 MW since the MSA's last calculation of installed generation market shares on April 22, 2018. This decrease was primarily due to the retirement of Sundance #2 on July 31, 2018. On September 30, 2018, the Battle River #5 PPA was terminated. Upon termination, 368 MW of offer control was transferred to ATCO from the Balancing Pool.

Market Shares by Uniform Capacity (UCAP)

The MSA has also calculated an initial estimate of capacity market shares based on the uniform capacity (UCAP) values of the generating assets in Alberta. The UCAP calculations are based on the methodologies set out in proposed ISO Rule 206.3 ("Proposed UCAP rule"). The Proposed UCAP rule outlines in detail the methodologies the AESO has put forward to calculate the UCAP values for different types of assets. The MSA calculated UCAP values for all the dispatchable assets in Alberta and the corresponding capacity market shares by **owner** (which may, due to the existence of the Power Purchase Arrangements, not be the same firm that **controls** the assets).

Table 2 provides the MSA's initial estimate of UCAP that is owned by capacity market participants. The largest four firms collectively own about 79% market share of UCAP.

Table 2: Capacity Market Shares based on UCAP Values

Company	MW	%
TransAlta	3,157	35.7%
Capital Power	1,504	17.0%
ATCO	1,364	15.4%
ENMAX	972	11.0%
Other	1,853	21.0%
Grand Total	8,850	100.0%

The capacity market shares have been calculated assuming that, if the asset is individually owned, its full capacity is controlled by its owner; if the asset is jointly owned, each owner controls only its offer control portion of the asset as per the MSA's Market Share Offer Control reporting (previous section).

Quarterly Reporting

Since 2003, the MSA has published Quarterly Reports that comment on market fundamentals, specific events, assessment of possible contraventions of regulations and other activities of the MSA. These are supplemented by annual reports, which typically focus on retail markets, offer control in the wholesale market, and trends with respect to compliance with ISO rules and Alberta Reliability standards. The purpose of

these reports is to be transparent about how Alberta's electricity markets function so that stakeholders can be confident that the markets are competitive and that the MSA is performing its role appropriately.

During 2018 the MSA's Quarterly Reports contained analyses and recommendations on several matters including:

- High pool price hours;
- Evolution of forward contract prices;
- Competitive contract market share in the retail market;
- Economic market efficiency analysis;
- Economies of tie-line transactions between AB/BC/SK and Montana; and
- The MSA's involvement in regulatory proceedings.

The Quarterly Report for Q1 2019 will be released in early May 2019. Its release was delayed pending the completion of Alberta's recent election process.

The Retail Electricity Market and the Rate Cap Regulation

The MSA's jurisdiction includes oversight of competition in the retail market.

On November 22, 2016 the Government of Alberta announced that Regulated Rate Option (RRO) rates would be capped at 6.8 cents per kWh from June 2017 to June 2021. As set forth in the *Rate Cap (Board or Council Approved Regulated Rate Tariffs) Regulation*, the MSA is the approving body for deferral account statements submitted by municipalities and REAs. In other words, these entities who wish to receive reimbursement must submit monthly statements to the MSA.

The MSA is also the approving body for deferral account statements submitted by the City of Medicine Hat under the *Rate Cap (City of Medicine Hat) Regulation*. An MSA approved deferral account statements serves as the basis for municipalities, REAs and the City of Medicine Hat to seek compensation from the Government of Alberta under these two regulations when the AUC posted Reference Rate exceeds 6.8 cents per kWh.

The rate cap first bound in April of 2018 and since then the MSA continues to approve deferral account statements as required. The MSA works with municipalities as well as indigenous and landowner owned REAs to assist them in the deferral account statement process. The majority of the REAs and municipalities have participated in this process and the total amount of reimbursement approved by the MSA for 2018 was \$6,015,265.14.

Compliance

Under the statutory scheme and AUC Rule 019 and Rule 027, the MSA has the jurisdiction to assess whether or not a market participant has complied with ISO rules and Alberta Reliability Standards and to apply a penalty as outlined in the applicable AUC Rule. In 2018, the MSA issued 64 notice of specified penalties for breaches of ISO Rules and Alberta Reliability Standards.

The MSA's approach with respect to compliance with market rules and reliability standards is focussed on promoting awareness of obligations and a proactive compliance stance. The MSA has established a process that, in conjunction with AUC rules, provides incentives for robust internal compliance programs, self-reporting and effective mitigation.

By way of background ISO rules are established in Alberta by the AESO in consultation with market participants. Statutory and developments in 2018 featured changes to the legislative framework regarding the approval of ISO rules. AUC Rule 017 which relates to how ISO rules applications are processed by the AUC was also amended. The MSA continues to have input into the development of proposed ISO rules and will participate, as necessary, in proceedings on new market rules in front of the AUC.

Since 2008, the MSA's work enforcing market rules and reliability standards has resulted in approximately \$1.85 million in financial penalties being levied on market participants. Compliance outcomes for ISO rules were in line with historical norms. In 2018, the MSA addressed 467 ISO rules compliance matters and had 92 matters unresolved at the end of the year. Detailed results for 2018 are forthcoming in a separate MSA report entitled MSA Compliance Review 2018, expected to be published by the end of Q2/19 and a summary is attached in Appendix B.

As set out in the Alberta *Transmission Regulation*, the AESO, in consultation with industry, reviews North American Electric Reliability Corporation (NERC) and Western Electricity Coordinating Council (WECC) standards to assess and recommend to the AUC, whether those standards are applicable to the Alberta interconnected electric system. The purpose of reliability standards is to ensure the various entities involved in grid operations (generators, transmission operators, independent system operators) are doing their part by way of procedures, communication, coordination, training, and maintenance, among other practices, to support the reliability of the interconnected electric system. Reliability standards apply to both market participants and the AESO.

In 2018, growth in reliability standards files before the MSA was apparent and is attributed to the implementation of Critical Infrastructure Protection (CIP) standards. In

October of 2017, Alberta adopted 10 of the CIP standards that have been developed by the North American Reliability Council.

Market participants are audited by the AESO for their compliance with the CIP standards. In addition, in 2018 the MSA engaged the Western Reliability Council to audit the AESO's compliance with the CIP standards. For security reasons the details of these contraventions are not released but are provided to the AUC in confidence.

Financial Statements

In 2018 after meeting all of its operating and capital expenses, the MSA had a funding surplus of approximately \$1.1 million principally due to lower than expected legal expenses incurred during the year as certain investigation matters during 2018 did not become contested matters before the AUC. The MSA's forecast financial position at the end of each year end is factored into its budget request for the subsequent year.

The MSA's audited financial statements for the year ended December 31, 2018 follow. The format of the financial statements reflects accounting standards for not-for-profit organizations.



Independent auditor's report

To the Management of Market Surveillance Administrator

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Market Surveillance Administrator (the Administrator) as at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Administrator's financial statements comprise:

- the balance sheets as at December 31, 2018 and 2017;
- the statements of operations for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Administrator in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

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



In preparing the financial statements, management is responsible for assessing the Administrator's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Administrator or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Administrator's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Administrator's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Administrator's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Administrator to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 28, 2019

Market Surveillance Administrator

Balance Sheets

As at December 31, 2018 and 2017

	2018 \$	2017 \$
Assets		
Current assets		
Cash	1,585,081	1,017,056
Accounts receivable	404,534	355,986
Prepaid expenses and deposits	32,922	33,475
	<u>2,022,537</u>	<u>1,406,517</u>
Capital assets (note 3)	32,169	45,662
	<u>2,054,706</u>	<u>1,452,179</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	529,489	581,225
Deferred contributions (note 4)	1,525,217	870,954
	<u>2,054,706</u>	<u>1,452,179</u>
Net Assets (note 1)	<u>2,054,706</u>	<u>1,452,179</u>

On Behalf of the Corporation

/s/ Gordon Kaiser

Gordon Kaiser
Market Surveillance Administrator

/s/ Doug Doll

Doug Doll, Chief Financial Officer
Market Surveillance Administrator

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

Market Surveillance Administrator

Statements of Operations

For the years ended December 31, 2018 and 2017

	2018 \$	2017 \$
Revenue		
Contributions from the Alberta Electric System Operator (note 4)	3,434,215	3,607,083
Interest and other income	114,108	3,103
	<u>3,548,323</u>	<u>3,610,186</u>
Expenses		
Salaries and benefits	2,481,982	2,751,759
Consultants and audit	237,560	122,852
Legal fees	360,702	284,578
Operating, office and administrative	445,387	416,100
Amortization	22,692	34,897
	<u>3,548,323</u>	<u>3,610,186</u>
Excess of revenue over expenses for the year	<u>•</u>	<u>•</u>

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

Market Surveillance Administrator

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	-	-
Item not involving cash		
Amortization	22,692	34,897
Changes in non-cash working capital		
Increase in accounts receivable	(48,548)	(355,986)
Decrease in prepaid expenses and deposits	553	1,941
(Decrease) increase in accounts payable and accrued liabilities	(51,736)	141,006
Increase (decrease) in deferred contributions	654,263	(1,255,712)
Cash provided by (used in) operating activities	577,224	(1,433,854)
Investing activities		
Expenditures on capital assets	(9,199)	(7,420)
Increase (decrease) in cash during the year	568,025	(1,441,274)
Cash – Beginning of year	1,017,056	2,458,330
Cash – End of year	1,585,081	1,017,056

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

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2018 and 2017

1 Nature of business

The Market Surveillance Administrator 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 are overseen by an individual appointed as Market Surveillance Administrator by the Minister of Energy for the Province of Alberta.

As at 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 operations.

2 Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-profit Organizations (ASNPO).

Cash

Cash consists of cash held with chartered financial institutions.

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2018 and 2017

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the following methods and annual rates:

Computer hardware	3 years	straight-line
Computer software	3 years	straight-line
Furniture and equipment	5 years	straight-line

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

Revenue recognition

The 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 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 judgment. Actual results could differ from those estimates.

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2018 and 2017

3 Capital assets

			2018	2017
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Computer hardware	156,667	151,597	5,070	6,244
Computer software	76,769	73,976	2,793	11,210
Furniture and equipment	172,625	148,319	24,306	28,208
	406,061	373,892	32,169	45,662

4 Deferred contributions

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 collections is deferred to or accrued for future years.

	2018	2017
	\$	\$
Opening balance – January 1	870,954	2,126,666
Add: Contributions from February to December	3,703,207	2,014,716
Less: Revenue recognized in the year from AESO	(3,434,215)	(3,607,083)
	1,139,946	534,299
Contribution for January	385,271	336,655
Closing balance – December 31	1,525,217	870,954

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2018 and 2017

5 Commitments

The Market Surveillance Administrator is committed under a lease agreement for its current premises until October 2019. Effective December 7, 2018, the Market Surveillance Administrator has entered into a new lease agreement. Total lease costs, including estimated operating costs, are approximately as follows:

	\$
2019	252,353
2020	167,872
2021	402,892
2022	402,892
2023	402,892
2024	402,892
2025	412,704
2026	426,440
2027	426,440
2028	426,440
2029	426,440
2030	248,757

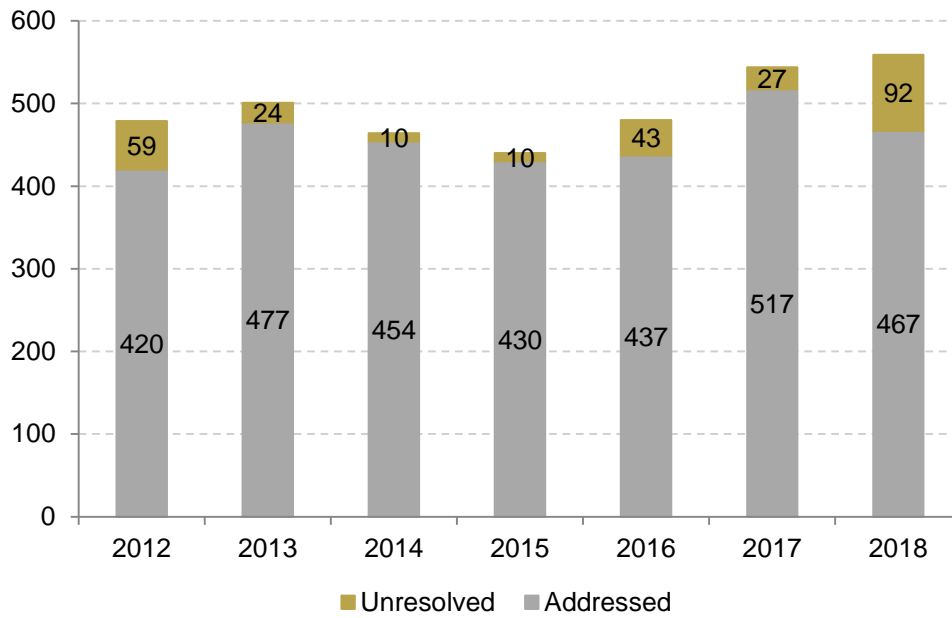
The Market Surveillance Administrator has entered into a service agreement with the Alberta Electric System Operator, under which the Market Surveillance Administrator receives certain information technology and office services. These services are provided for a monthly fee of \$3,860, plus an hourly 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 MSA for the facility and no amount was drawn on this facility as at year-end.

Appendix B

Summary of ISO Rule Contraventions Files



Summary of Reliability Standards Contravention Files (non-CIP)

