

Annual Report

For the Year Ending December 31, 2020

April 30, 2021

Taking action to promote effective competition and a culture of compliance and accountability in Alberta's electricity and retail natural gas markets

April 30, 2021

Honourable Sonya Savage
Minister of Energy
324 Legislature Building
10800 – 97 Avenue
Edmonton, AB
T5K 2B6

Re: Annual Report for the year ending December 31, 2020

Dear Minister,

I am pleased to submit the Annual Report of the Market Surveillance Administrator (MSA) for the year ending December 31, 2020 (Annual Report). This report is provided to you pursuant to section 38(1) of the *Alberta Utilities Commission Act*.

If you have any questions about this Annual Report or the activities of the MSA, please do not hesitate to contact me.

Yours truly,

Derek Olmstead
Market Surveillance Administrator

Cc: Honourable Dale Nally, Associate Minister of Natural Gas and Electricity
Grant Sprague, Deputy Minister of Energy
Stephanie Clarke, Associate Deputy Minister of Natural Gas and Electricity
Carolyn Dahl Rees, Chair, Alberta Utilities Commission

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1 INTRODUCTION

The MSA is an independent law enforcement agency created under the *Alberta Utilities Commission Act* (AUCA). This Annual Report is provided pursuant to section 38(1) of the AUCA, which requires that the MSA provide the Minister of Energy with an annual report that reports on the MSA's activities in the fiscal year and contains its audited financial statements for the fiscal year.

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. The MSA's roles in these markets are to conduct surveillance and report publicly on the competitiveness of market outcomes, investigate market participant conduct, prudently 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 *Electric Utilities Act* (EUA), the *Fair, Efficient and Open Competition Regulation* (FEOC Regulation), the ISO rules, and the Alberta Reliability Standards (ARS).

Section 2 of this report summarizes the MSA's activities in 2020. Section 3 provides the MSA's audited financial statements for 2020.

2 REVIEW OF 2020 ACTIVITIES

2.1 The COVID-19 pandemic

The COVID-19 pandemic emerged unexpectedly in 2020. The MSA's initial reaction was to ensure the safety of its staff and to that end responded by directing its staff to work from home.¹ The transition to working from home was successful and the MSA continued to function well and carry out its mandate effectively.

With respect to the MSA's business, the main effect of the COVID-19 pandemic was to temporarily reduce the activity within the electricity industry. As discussed further below, partly as a result of lower electricity demand (and therefore pool prices) resulting from the pandemic, the number of enforcement matters arising from market surveillance and market participant complaints was lower in 2020 than in prior years. In part due to this reduction, the MSA, as reported in section 3, finished the year 2020 well under budget.

2.2 Surveillance

2.2.1 *Publication of Quarterly Reports*

For many years the MSA made public a quarterly report that provided an overview of:

¹ [Market Surveillance Administrator Office Closure](#) (March 17, 2020)

- recent outcomes Alberta’s electricity and retail natural gas markets;
- analysis of these market outcomes;
- a summary of the MSA’s recently completed investigations and issue assessments; and
- an update on the MSA’s compliance activities in the quarter.

It is through these reports, pursuant to sections 38(3) and (4) of the AUCA, that the MSA makes available to the Minister of Energy and the public its views on market events or conditions related to the MSA’s mandate.

In May 2020, the MSA resumed its historical practice of publishing Quarterly Reports. The MSA stated that it will aim to publish its Quarterly Report within six weeks of the end of each quarter. For the year 2020, the MSA published three Quarterly Reports:

- Quarterly Report for Q1 2020 on May 14, 2020;²
- Quarterly Report for Q2 2020 on August 11, 2020;³ and
- Quarterly Report for Q3 2020 on November 10, 2020.⁴

The MSA’s Quarterly Report for Q4 2020 was published on February 12, 2021.⁵

The highlights of these reports are not reproduced here. However, each report begins with a summary section called “Quarter at a Glance” that summarizes the highlights of the quarter. Each Quarterly Report was published within six weeks of the end of the relevant quarter, thereby meeting the timing objective set out above.

2.2.2 Market Share Offer Control report

Section 5(3) of the FEOC Regulation requires the MSA to at least annually make available to the public an offer control report that: includes the names and the percentage of offer control held by electricity market participants, where the percentage of offer control is greater than 5%, and may include the names and the percentage of offer control held by electricity market participants, where the percentage of offer control is 5% or less.

² [MSA Quarterly Report for Q1 2020](#) (May 14, 2020)

³ [MSA Quarterly Report for Q2 2020](#) (August 11, 2020)

⁴ [MSA Quarterly Report for Q3 2020](#) (November 10, 2020)

⁵ [MSA Quarterly Report for Q4 2020](#) (February 12, 2021)

The MSA's standard practice is to publish one report per year. Details of the process to collect and publish information on offer control to meet the requirements above are set out in the MSA's Market Share Offer Control Process.⁶

For 2020, the MSA's Market Share Offer Control report was published on February 28, 2020.⁷

2.2.3 Development of new ISO rules

The ISO rules are developed by the Alberta Electric System Operator (AESO) in consultation with market participants and the MSA and are submitted to the AUC for approval. The MSA provides input into the development of ISO rules and may participate in approval proceedings before the AUC. The MSA actively monitors all ISO rule consultations relevant to its mandate.

In 2020 the MSA submitted comments in two ISO rule consultations related to updates to the transmission constraint management rule⁸ and potential changes to mothball outage reporting.⁹ Both consultations are ongoing. The MSA will continue to closely monitor the development of ISO rules and actively participate in matters related to competition in the electricity market.

2.2.4 Retail statistics

For almost a decade the MSA has routinely collected data and reported publicly on the state of competition in the retail electricity and natural gas markets. Prior to this time, this was a function that was undertaken by the Department of Energy.

The MSA carries out this function by, among other things, publishing information in its Quarterly Reports related to the share of different groups of consumers on competitive retail contracts for electricity and natural gas and the rate at which customers on competitive contracts change suppliers. The MSA also maintains an up-to-date database of competitor retailer market shares on its website.

2.3 Enforcement

2.3.1 Summary of enforcement matters and meetings of the Enforcement Committee

The MSA's Enforcement Committee is comprised of senior staff of the MSA, including the Administrator. It serves as an oversight body within the MSA regarding enforcement matters, including issue assessments and investigations.

⁶ [Annual Market Share Offer Control Process](#) (April 30, 2013)

⁷ [2020 Market Share Offer Control Report](#) (February 28, 2020)

⁸ AESO's [TCM Update Consultation](#)

⁹ AESO's [Mothball Outage Reporting Consultation](#)

In 2020, the MSA’s Enforcement Committee met 14 times and considered 25 major matters. Of these matters, 20 were resolved during the year and five were outstanding at the end of the year. These matters are categorized by the main applicable legislation or requirement in Table 1.

Table 1: Matters considered by the MSA’s Enforcement Committee in 2020

Category	Resolved	Outstanding
EUA, section 5	1	-
EUA, section 17	-	1
EUA, section 85	2	1
FEOC Regulation, section 2	3	1
FEOC Regulation, section 3	4	-
FEOC Regulation, section 4	1	-
FEOC Regulation, section 6	1	-
<i>Code of Conduct Regulation</i>	1	-
<i>Distribution Tariff Regulation</i>	-	1
<i>Rate Cap Regulation</i>	2	-
ISO rules	5	1
Total	20	5

With the exception of monitoring the settlement between the MSA and Balancing Pool that was approved by the AUC on January 14, 2020¹⁰ (which is categorized in Table 1 as an EUA, section 85 matter), all matters considered by the Enforcement Committee from before the beginning of 2020 have been resolved.¹¹ A substantial number of minor matters were considered by staff and management but were not elevated to the Enforcement Committee for consideration.

2.3.2 Enforcement Statement regarding offer behaviour

On June 29, 2020, the MSA issued a public notice¹² and Enforcement Statement¹³ that set out its views and approach to economic withholding in the Alberta electricity market, an important matter related to the mandate of the MSA.

¹⁰ [AUC Decision 23828-D02-2020](#), “Application for approval of a revised settlement agreement between the Market Surveillance Administrator and the Balancing Pool.” (January 14, 2020)

¹¹ This includes both investigations that were identified publicly in the MSA’s [Report to the Minister for the Year Ending December 31, 2018](#) (April 30, 2019)

¹² [MSA enforcement statement related to economic withholding](#) (June 29, 2020)

¹³ [MSA enforcement statement: Economic withholding](#) (June 29, 2020)

In the public notice, the MSA indicated that if market participants or stakeholders had any questions or comments regarding the Enforcement Statement, or were of the view that the MSA should develop guidelines related to economic withholding or offer behaviour more broadly, feedback would be welcome. No feedback requesting additional action by the MSA was received and, as a result, the MSA did not proceed to develop guidelines or undertake any other related work.

2.3.3 Preferential sharing of records

Section 3 of the FEOC Regulation allows market participants to preferentially share electricity market records relating to price quantity offers not available to the public, after approval by the AUC. This information can be shared with other entities provided that the sharing of records is reasonably necessary for their business and the records will not be used for any purpose that undermines the fair, efficient and openly competitive operation of the electricity market. A market participant must apply to the AUC for a records sharing order in a confidential proceeding, with the MSA participating as an intervener. The section 3 exemption is often used to facilitate appointing an agent to manage real time dispatch of electricity generation, which can result in significant cost savings.

In the interest of regulatory efficiency, the MSA typically engages with market participants to refine the application prior to submission to the AUC. This engagement helps ensure that any issues or shortcomings of the application are resolved efficiently, prior to entering a formal regulatory procedure. The MSA's experience and perspective is especially valuable to section 3 applicants because prior applications are not publically available, due to the confidential nature of the proceedings. The MSA's review also ensures that appropriate safeguards are in place to ensure that the shared information is not used for purposes that do not support fair, efficient and open competition.

In 2020, the MSA has reviewed and provided feedback on seven information sharing applications to the AUC. Changes were suggested and accepted for six of seven applications. No further changes were required by the MSA or AUC when the applications were heard by the AUC. The MSA believes that it can continue to help reduce regulatory burden by continuing to engage with market participants in similar instances.

2.3.4 Application to the Alberta Utilities Commission re section 6 of the Market Surveillance Regulation

On August 19, 2020, the MSA filed an application under section 6 of the *Market Surveillance Regulation* (MSR), requesting that the AUC issue a determination regarding whether the MSA may make public a record (Public Document) that identified a market participant by name, based on the MSA's consideration of the various factors involved in the case and the objection it received from the market participant. The AUC considered the matter as Proceeding 25809.

On September 2, 2020, the AUC ruled that the MSA may make public the record identifying the market participant by name. Among other things, the AUC stated:¹⁴

27. The principal issue before the Commission is whether it was reasonable for the MSA to determine that the factors it assessed under Subsection 6(4) of the MSR favour the release of the name of the market participant in the Public Document it seeks to publish.

28. The Commission's review of the MSA's determination leads it to conclude that the determination made by the MSA was reasonable.

Later on September 2, 2020, the MSA publicly stated:¹⁵

The Market Surveillance Administrator (MSA) has initiated an investigation under section 42(1)(b) of the *Alberta Utilities Commission Act*. The investigation focuses on the Balancing Pool's conduct in relation to potential breaches of the *Electric Utilities Act*, including sections 6 and 85, the *Fair, Efficient and Open Competition Regulation*, and the Settlement Agreement between the MSA and Balancing Pool that was approved by the Alberta Utilities Commission on January 14, 2020.

2.3.5 Administration of the retail rate cap for the Rural Electrification Associations and the City of Medicine Hat

Regulated Rate Option (RRO) energy rates were capped at 6.8 cents/kWh between June 2018 and November 2019 under the Rate Cap Program. Deferral accounts with the Government of Alberta were established to facilitate the reimbursement of RRO providers for forgone revenues resulting from the rate cap. The AUC approved deferral accounts for the three RRO providers serving AUC-regulated distribution service areas. The MSA approved deferral accounts for fifteen RRO providers serving 38 rural electrification associations (REAs) and wire-owning municipalities.

The MSA was required to complete a final review and disposition of deferral accounts (Final Review) for the fifteen RRO providers in accordance with section 8 of the *Rate Cap (Board or Council Approved Regulated Rate Tariffs) Regulation* (Rate Cap Regulation) and the *Rate Cap (City of Medicine Hat) Regulation* (Medicine Hat Rate Cap Regulation). Prior to the MSA's Final Review, the MSA had approved \$13.1 million in deferral account compensation.

Applications for the Final Review were required under section 8(1) of the Rate Cap Regulation to be submitted within six months of November 30, 2019, the date on which the Rate Cap Program ceased to apply. To facilitate the process the MSA informed RRO providers that it would deem a

¹⁴ [AUC Decision 25809-D01-2020](#), "Application to make public a record that identifies a market participant by name." (September 2, 2020)

¹⁵ MSA notice re [MSA has issued a formal notice of investigation to the Balancing Pool related to offer strategies undertaken at PPA units](#) (September 2, 2020).

response to an Information Request from the MSA by May 30, 2020 (six months after November 30, 2019) as an application for Final Review.

The MSA found that the majority of RRO providers had over-claimed on their deferral accounts, and as a result of the MSA's adjustments to the information and amounts in their deferral accounts owed as much as \$46,000 to the Government of Alberta. Some RRO providers had under-claimed on their deferral accounts and were owed as much as \$300,000 from the Government of Alberta. Four RRO providers were found to have neither over-claimed nor under-claimed on their deferral accounts.¹⁶

In total, the MSA's fifteen Final Reviews resulted in determinations netting to \$157,907.94 owing to RRO providers. Including adjustments made as a result of the Final Review, the MSA has approved \$13.2 million in deferral account compensation since April 2018.

2.4 Compliance

2.4.1 Compliance Review 2019

Pursuant to section 23(2) of the *Transmission Regulation*, the MSA is required to make available to the public an annual report related to its compliance activities. In fulfillment of this requirement for 2019, the MSA published its Compliance Review 2019 on May 12, 2020.¹⁷

2.4.2 Public consultation regarding the MSA's Compliance Process

The MSA Compliance Process was last revised in October 2016. Since then, new Alberta Reliability Standards (ARS) (including Critical Infrastructure Protection reliability standards) and ISO rules have been adopted. Furthermore, the MSA recognized that there may be opportunities to clarify its Compliance Process in order to reduce the regulatory burden for market participants and to help meet the MSA's red tape reduction targets.

On August 7, 2020, the MSA issued a public notice¹⁸ indicating that it would hold a public consultation regarding its Compliance Process, beginning in September. The MSA requested preliminary feedback about areas of discussion by August 28, 2020. Six submissions were made.

Based in part on this preliminary feedback, on September 9, 2020, the MSA issued a public notice¹⁹ requesting specific comments by September 23, 2020 on the following topics: self-reporting process; compliance monitoring and the referral process; forbearance criteria and

¹⁶ In the Final Reviews for two of these four RRO providers, the amounts found owed by or owing to the RRO provider were of sufficiently low value that the administrative costs of settling these amounts would exceed the value of the amounts owed or owing.

¹⁷ [Compliance Review 2019](#) (May 12, 2020)

¹⁸ MSA notice re [Compliance process consultation and MSA proposals to amend AUC Rules](#) (August 7, 2020)

¹⁹ MSA notice re [MSA Compliance Process consultation](#) (September 9, 2020)

specified penalties; conditional forbearance and contravention mitigation; transparency and reporting; and additional comments.

Comments were received from nine stakeholders.²⁰ Following its review of these comments, on October 23, 2020 the MSA issued a public notice that provided a revised version of the Compliance Process.²¹ A public virtual stakeholder session was held on October 29, 2020 to discuss the revisions.²² Written comments were subsequently received from seven stakeholders.²³

After considering these comments, the MSA published its revised Compliance Process on December 4, 2020.²⁴

2.4.3 ISO rules compliance activities

The purpose of the ISO rules is to promote orderly and predictable actions by market participants and to facilitate the operation of the Alberta interconnected electric system (AIES). The MSA is responsible for the enforcement of the ISO rules and endeavours to promote a culture of compliance and accountability among market participants, thereby contributing to the reliability and competitiveness of the Alberta electric system. If the MSA is satisfied that a contravention has occurred and has determined that a notice of specified penalty is appropriate, then AUC Rule 019 guides the MSA on how to issue a notice of specified penalty.

In 2020, the MSA addressed 437 ISO rules compliance matters.²⁵ Of these, 98 matters were addressed with notices of specified penalty (NSP), totalling \$157,750 in financial penalties. For additional information regarding the MSA's ISO rules compliance activities in 2020, see section 4 of the MSA's Compliance Review 2020.²⁶

2.4.4 ARS compliance activities

The purpose of ARS is to ensure the various entities involved in grid operation (generation operators/owners, transmission operators/owners, distribution system operators/owners, and the independent system operator) are doing their part by way of procedures, communications, coordination, training and maintenance, among other practices, to support the reliability of the AIES. ARS apply to both market participants and the AESO. ARS are divided into two categories: Operations and Planning (O&P) and Critical Infrastructure Protection (CIP). The MSA's approach

²⁰ MSA notice re [MSA Compliance Process consultation – stakeholder comments](#) (revised) (September 25, 2020)

²¹ MSA notice re [MSA Compliance Process consultation – revised draft and request for comments](#) (October 23, 2020)

²² MSA notice re [MSA Compliance Process consultation – virtual stakeholder meeting October 29](#) (October 13, 2020)

²³ MSA notice re [MSA Compliance Process consultation – stakeholder comments on draft](#) (November 16, 2020)

²⁴ MSA notice re [Final MSA Compliance Process](#) (December 4, 2020)

²⁵ A compliance matter is considered to be addressed once a disposition has been issued.

²⁶ [MSA Compliance Review 2020](#) (April 16, 2021)

with respect to compliance with ARS is focused 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, and self-reporting.

In 2020, the MSA addressed 115 O&P ARS compliance matters. Of these, 16 matters were addressed with a NSP, totalling \$39,000 in financial penalties. In 2020, the MSA addressed 554 CIP ARS compliance matters. Of these, 268 matters were addressed with a NSP, totalling \$509,500. For additional information regarding the MSA's ARS compliance activities in 2020, see section 5 of the MSA's Compliance Review 2020.²⁷

2.5 Red tape reduction

The MSA completed the count of its regulatory requirements in December 2019, which represents a key metric specified as part of Alberta's red tape reduction program. All of these requirements existed within the MSA's Compliance Process.

As discussed above, during fall 2020, the MSA conducted a comprehensive consultation regarding the MSA Compliance Process, with a particular focus on reducing red tape and improving the efficiency of its compliance forms. This consultation resulted in a significant number of amendments to the Compliance Process. With the publication of the MSA's revised Compliance Process, the MSA has reduced its red tape count by 58%.

The MSA also reduced red tape and uncertainty for market participants during the COVID-19 pandemic by issuing compliance waivers for related contraventions. These waivers followed best practices from the North American Electric Reliability Corporation (NERC) and were issued on March 30,²⁸ June 22,²⁹ August 20,³⁰ and December 17, 2020³¹ and February 25, 2021,³² as the pandemic evolved.

3 FINANCIAL STATEMENTS

The AUCA provides that the MSA must operate on an annual basis without profit or loss. To that end, the MSA's fiscal operations are managed in accordance with an annual budget approved by the Chair of the AUC and its revenue is obtained from market participants through a levy based on the approved budget and collected by the AESO and remitted monthly to the MSA. The MSA's audited financial statements for the year ended December 31, 2020 follow. The format of the audited financial statements reflects accounting standards for not-for-profit organizations.

²⁷ [MSA Compliance Review 2020](#) (April 16, 2021)

²⁸ MSA notice re [The Coronavirus and Specified Penalties](#) (March 30, 2020)

²⁹ MSA notice re [COVID-19 compliance update](#) (June 22, 2020)

³⁰ MSA notice re [COVID-19 compliance update and extension](#) (August 20, 2020)

³¹ MSA notice re [COVID-19 compliance update and extension to March 31, 2021](#) (December 17, 2020)

³² MSA notice re [COVID-19 compliance update and extension to June 30, 2021](#) (February 25, 2021)

**Market Surveillance
Administrator**

Financial Statements
December 31, 2020



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, 2020 and the results of its operations and its cash flows for the year 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 sheet as at December 31, 2020;
- the statement of operations and changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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
March 15, 2021

Market Surveillance Administrator

Balance Sheet

As at December 31, 2020

	2020 \$	2019 \$
Assets		
Current assets		
Cash	1,506,197	556,540
Accounts receivable	-	611,614
Prepaid expenses and deposits	22,759	35,230
	<u>1,528,956</u>	<u>1,203,384</u>
Capital assets (note 3)	701,042	691,452
	<u>2,229,998</u>	<u>1,894,836</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	236,212	817,310
Current portion of deferred lease inducement	71,234	76,404
Deferred contributions (note 4)	1,401,658	541,714
	<u>1,709,104</u>	<u>1,435,428</u>
Deferred lease inducement	520,894	459,408
Net Assets (note 1)	<u>-</u>	<u>-</u>
	<u>2,229,998</u>	<u>1,894,836</u>
Commitments (note 5)		
Contingencies (note 7)		

On Behalf of the Corporation



Derek Olmstead, Chief Executive Officer
Market Surveillance Administrator



Larry Kram, General Counsel and Corporate Secretary
Market Surveillance Administrator

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

Market Surveillance Administrator
Statement of Operations and Changes in Net Assets
For the year ended December 31, 2020

	2020	2019
	\$	\$
Revenue		
Contributions from the Alberta Electric System Operator (note 4)	4,178,185	5,650,864
Interest and other income	1,740	18,522
	<hr/>	<hr/>
	4,179,925	5,669,386
Expenses		
Salaries and benefits	3,037,280	3,026,883
Consultants and audit	443,379	1,417,229
Operating, office and administrative	445,601	556,649
Amortization	126,910	25,838
Legal fees	126,755	642,787
	<hr/>	<hr/>
	4,179,925	5,669,386
Excess of revenue over expenses for the year	-	-
Net assets – Beginning of year	<hr/>	<hr/>
	-	-
Net assets – End of year	<hr/>	<hr/>
	-	-

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

Market Surveillance Administrator

Statement of Cash Flows

For the year ended December 31, 2020

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	-	-
Item not involving cash		
Amortization	126,910	25,838
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	611,614	(207,080)
Decrease (increase) in prepaid expenses and deposits	12,471	(2,308)
(Decrease) increase in accounts payable and accrued liabilities	(581,098)	287,821
Increase in deferred lease inducement	56,316	535,812
Increase (decrease) in deferred contributions	859,944	(983,503)
	<u>1,086,157</u>	<u>(343,420)</u>
Investing activities		
Expenditures on capital assets	<u>(136,500)</u>	<u>(685,121)</u>
Increase (decrease) in cash during the year	949,657	(1,028,541)
Cash – Beginning of year	<u>556,540</u>	<u>1,585,081</u>
Cash – End of year	<u>1,506,197</u>	<u>556,540</u>

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

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2020

1 Nature of business

The Market Surveillance Administrator (MSA) was incorporated on June 1, 2003 under the *Electric Utilities Act* of the Province of Alberta, and continued as of January 1, 2008, under the *Alberta Utilities Commission Act*.

The operations of the MSA corporation are managed by an individual appointed as Market Surveillance Administrator by the Minister of Energy for the Province of Alberta.

The MSA has 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 MSA monitors 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 MSA 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 MSA has no share capital. The *Alberta Utilities Commission Act* requires that the MSA 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 MSA the budgeted costs net of any other revenues. The MSA 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.

Cash

Cash consists of cash held with chartered financial institutions.

Capital assets

Capital assets are recorded at cost less accumulated amortization and any provision for impairment. The cost of capital assets made up of significant separable component parts is allocated to the component parts when practical and when estimates can be made of the estimated useful lives of the separate components.

Amortization is provided using the following methods and estimated lives:

Computer hardware	3 years	straight-line
Computer software	3 years	straight-line
Leasehold improvement	lease term	straight-line
Furniture and equipment	5 years	straight-line

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2020

Capital assets are tested for impairment when conditions indicate that a capital asset no longer contributes to the MSA's ability to provide services, or that the value of future economic benefits or service potential associated with the capital asset is less than its net carrying amount. When conditions indicate that a capital asset is impaired, the net carrying amount of the capital asset is written down to the asset's fair value or replacement cost. The impairment of capital assets is recognized as expenses in the statement of operations and changes in net assets. Impairments are not subsequently reversed.

Leases

Leases in which the MSA obtains substantially all the risks and rewards of ownership are classified as capital leases. The MSA records its capital leases as an acquisition of an asset and an assumption of an obligation. The asset value and the amount of the obligation, recorded at the inception of the lease, are the present value of the minimum lease payments. Each lease payment is allocated between the liability and interest expense so as to achieve a constant rate of interest on the recorded capital lease obligations. Equipment acquired under a capital lease is amortized over the term of the lease, or the expected useful life of the asset when the lease contains a purchase option. All other leases are accounted for as operating leases wherein rental payments are recognized in the statement of operations and changes in net assets on a straight-line basis over the terms of the leases. Deferred lease inducements represent amounts received for leasehold improvements and the value of rent free periods. Lease inducements are deferred and amortized on a straight-line basis over the term of the lease and the amortization is recorded as a reduction of rent expense for the year.

The MSA does not have any leases that are classified as capital leases as at December 31, 2020.

Income taxes

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

Financial instruments

The MSA's financial instruments consist of cash, accounts receivable, deferred lease inducement accounts payable and accrued liabilities. Due to the current nature of the MSA financial instruments, fair value approximates the 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.

Market Surveillance Administrator

Notes to Financial Statements

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Revenue recognition

The MSA follows the deferral method of accounting for contributions.

Consistent with the requirements of the *Alberta Utilities Commission Act* that the MSA 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 is 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.

3 Capital assets

			2020	2019
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Computer hardware	220,775	162,965	57,810	3,575
Computer software	79,248	77,447	1,801	451
Leasehold improvement	568,224	90,640	477,584	508,057
Furniture and equipment	370,468	206,621	163,847	179,369
	1,238,715	537,673	701,042	691,452

4 Deferred contributions

Contributions from the Alberta Electric System Operator (AESO) are set to recover the operating and capital costs of the MSA. Any excess or shortfall in collections is deferred to or accrued for future years.

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2020

	2020	2019
	\$	\$
AESO		
Opening balance – January 1	541,714	1,525,217
Add: Contributions from February to December	4,723,215	4,237,978
Less: Revenue recognized in the year from AESO	(4,178,185)	(5,650,864)
	<hr/>	<hr/>
Contribution for January	1,086,744	112,331
	314,914	429,383
	<hr/>	<hr/>
Closing balance – December 31	1,401,658	541,714
	<hr/>	<hr/>

5 Commitments

The MSA is committed under a lease agreement for its current premises until July 2030.

This lease provides the MSA with landlord funded capital improvements and rent free periods as part of this lease. These benefits will be amortized on a straight-line basis over the lease term.

Total lease costs are approximately as follows:

	\$
2021	153,062
2022	153,062
2023	153,062
2024	153,062
2025	162,874
2026	176,610
2027	176,610
2028	176,610
2029	176,610
2030	103,023

The MSA has entered into a service agreement with the AESO, under which the MSA 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 MSA has a demand operating facility. Under the terms and conditions of this facility, the MSA 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 at year-end.

7 Contingencies

The MSA is involved in claims arising in the normal course of business. In 2019, \$327,630 was recorded as an accrued liability relating to an outstanding claim due to employment matters and has been settled in 2020.

Market Surveillance Administrator

Notes to Financial Statements

December 31, 2020

8 Related party

Prior to his appointment as Interim Administrator on April 22, 2020, Derek Olmstead was providing consulting services to the MSA. These consulting services ceased to be provided as of April 22, 2020. The value of the transactions paid for these consulting services in 2020 was \$128,000 including GST (2019 – \$299,914 including GST). Effective September 11, 2020, Mr. Olmstead was appointed Administrator for a five-year term. Mr. Olmstead's compensation associated with his position as Administrator, including his employment contract, will be disclosed in the normal course with other MSA employees on the MSA's website in accordance with the requirements of the *Public Sector Compensation Transparency Act*. The next scheduled disclosure date is June 30, 2021.

9 Coronavirus pandemic (COVID-19)

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic resulting in significant public health measures and restrictions put in place. Restrictions such as travel bans, closure of non-essential businesses and physical distancing have caused disruption to businesses and a significant decline in global capital markets resulting in an economic slowdown.

On March 17, 2020, the MSA directed its staff to work from home. This direction remains in place. Management has assessed the financial impact of COVID-19 as at December 31, 2020, including the assessment of accrued liabilities, deferred contributions, deferred lease inducement and the timing of revenue recognition. Management did not identify any impact to its financial statements as at December 31, 2020.

The long-term impact of the pandemic on the MSA and the economy is not yet known and information surrounding the global economic impact of COVID-19 and the estimated length of the pandemic continues to evolve. It is not possible to estimate the results of future financial impacts of COVID-19 on the MSA subsequent to December 31, 2020.