

MSA SPRING STAKEHOLDER MEETING

March 22, 2005 Calgary

March 23, 2005 Edmonton

www.albertamsa.ca

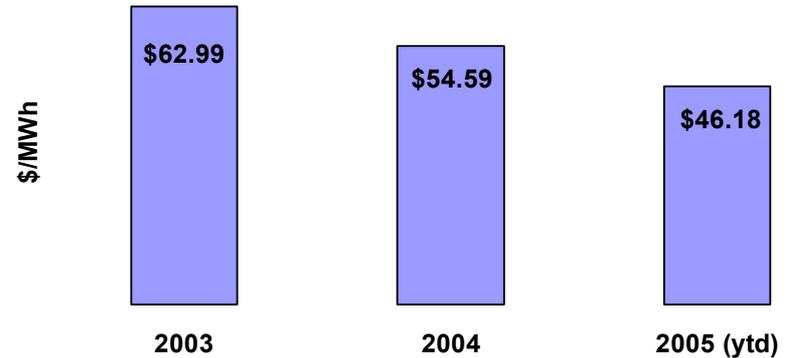
AGENDA

- Welcome & Introductory Remarks
- Market Monitoring
- Code of Conduct
- Investigations & Reviews
- Outlook for 2005

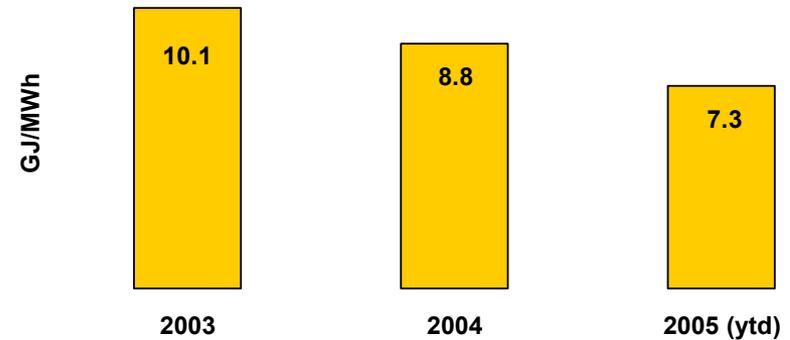
Wholesale Market Prices

- Trending down – effect of G3
- Heat Rate down
- Net Revenues down

Average Wholesale Price

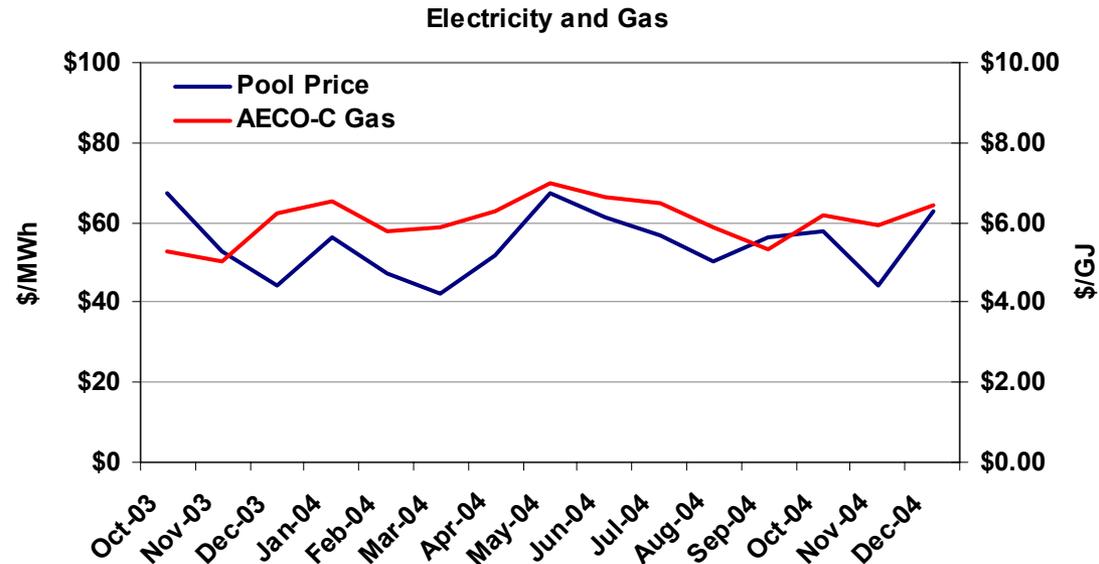


Implied Market Heat Rate



Electricity & Gas Prices

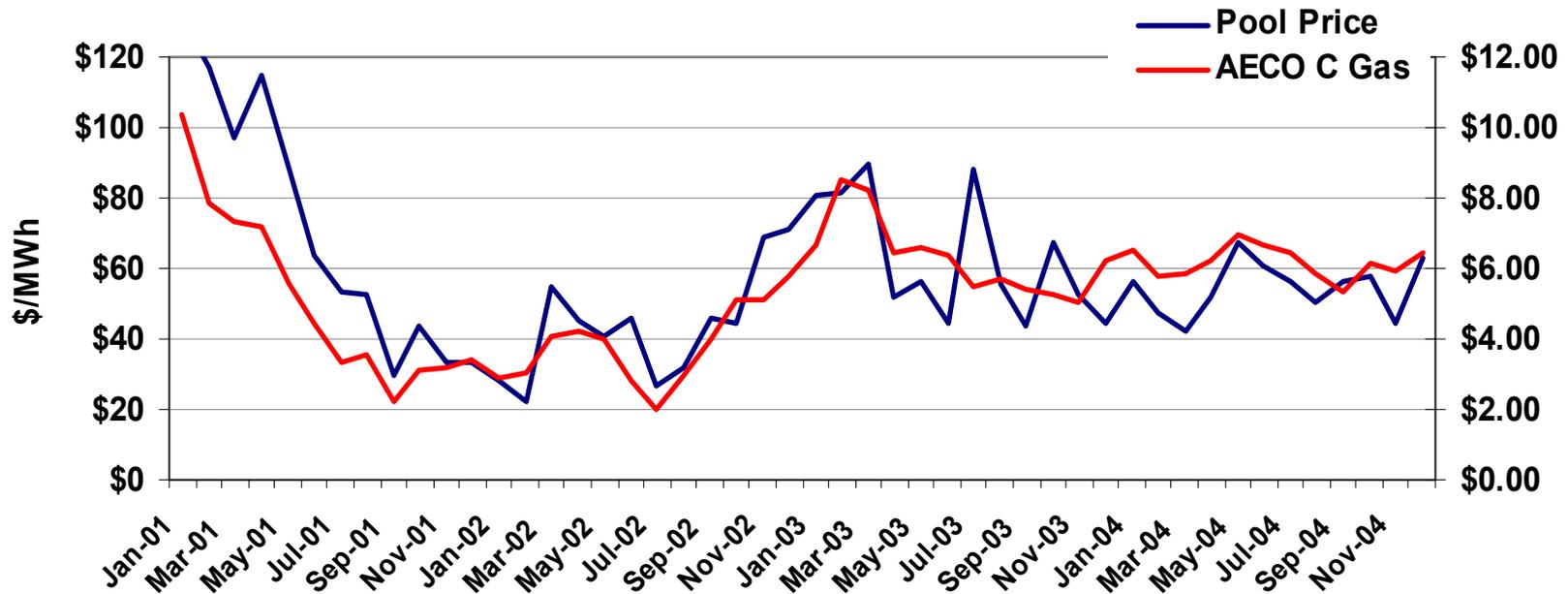
- Electricity and Gas relationship strengthened
- Still looks a bit wobbly



Electricity & Gas Prices

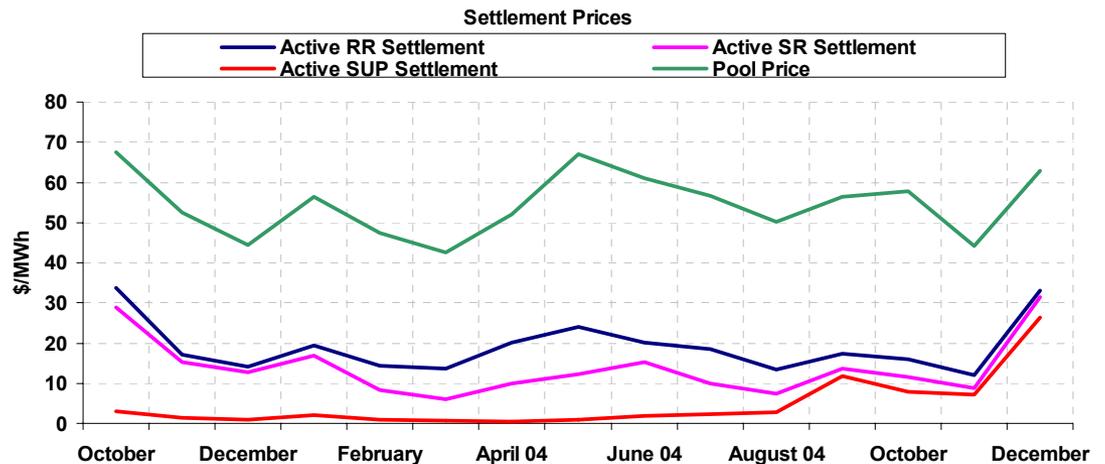
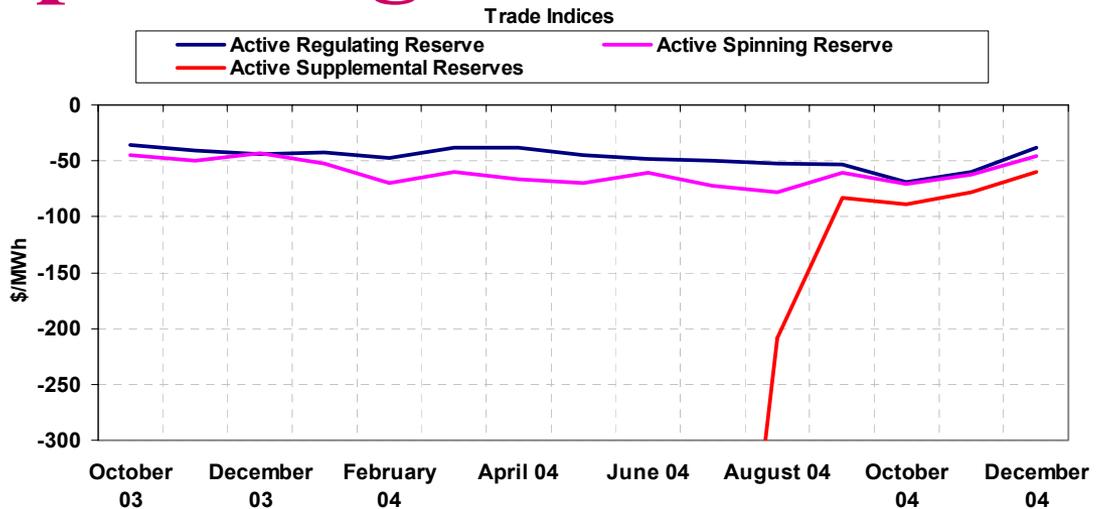
- Longer term ...

Electricity and Gas



Operating Reserves

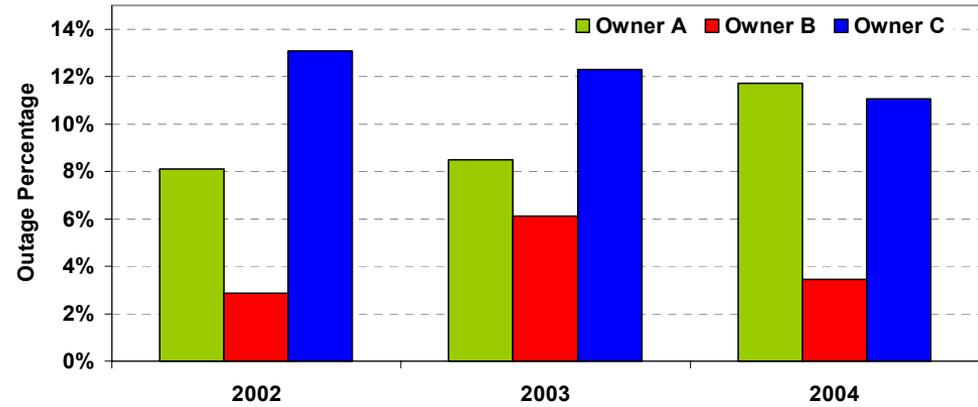
- Trade Indices changed in August
- Settlement prices changed in August
- Spinning Event report in January
- BP & TAU



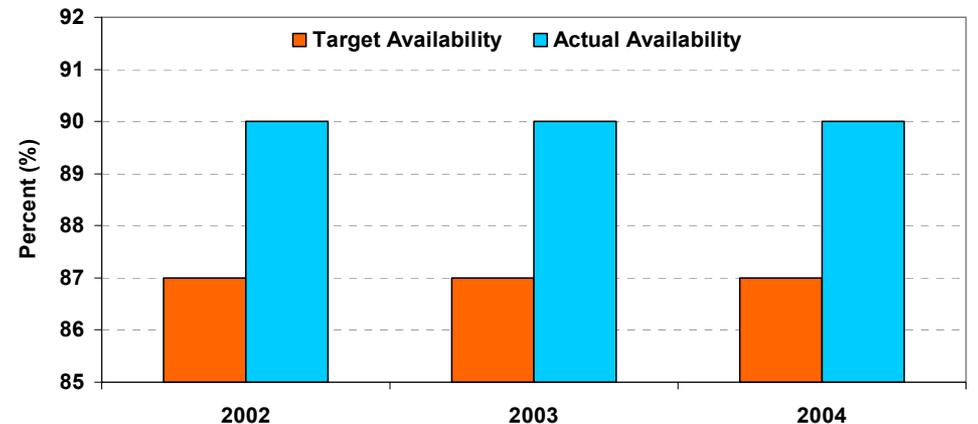
Outage & Derates – PPA Coal Units

- MSA focused on availability of PPA coal units
- Buyer-Owner relationship
- Availability incentives are working

Historical Outage Rates by Owner

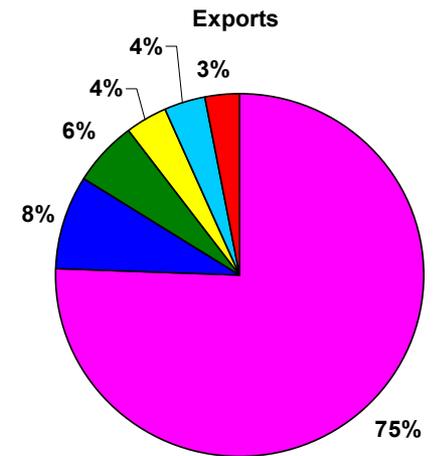
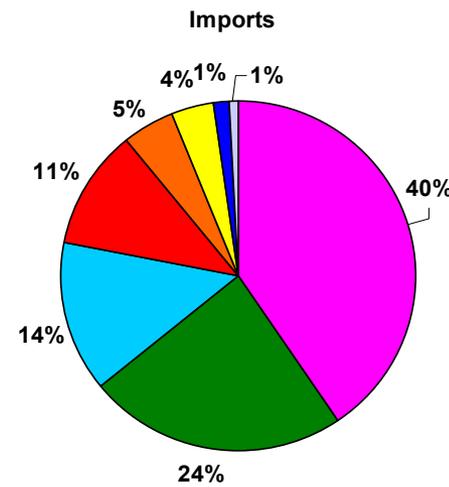
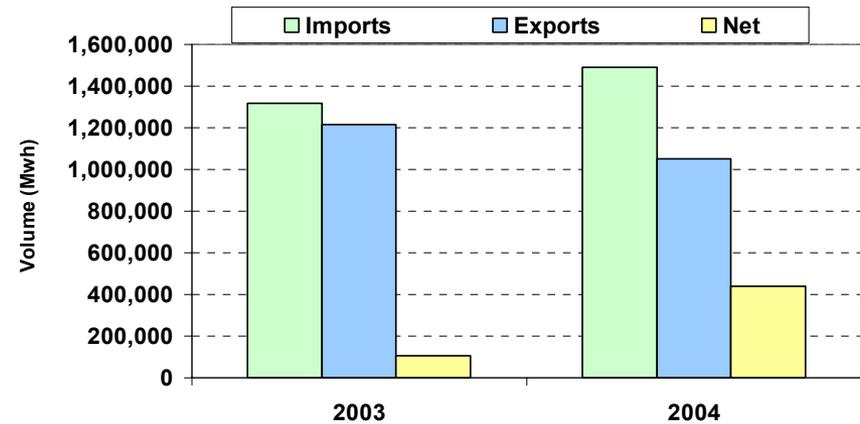


PPA weighted Average Availability vs Target



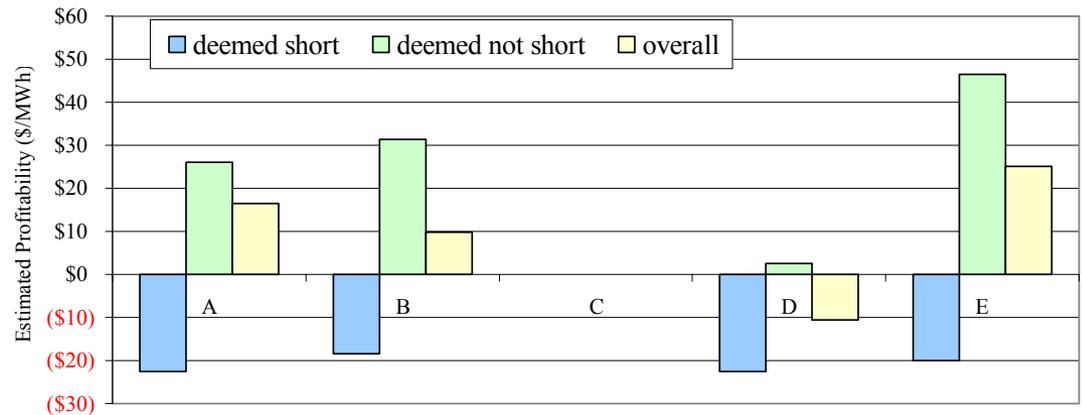
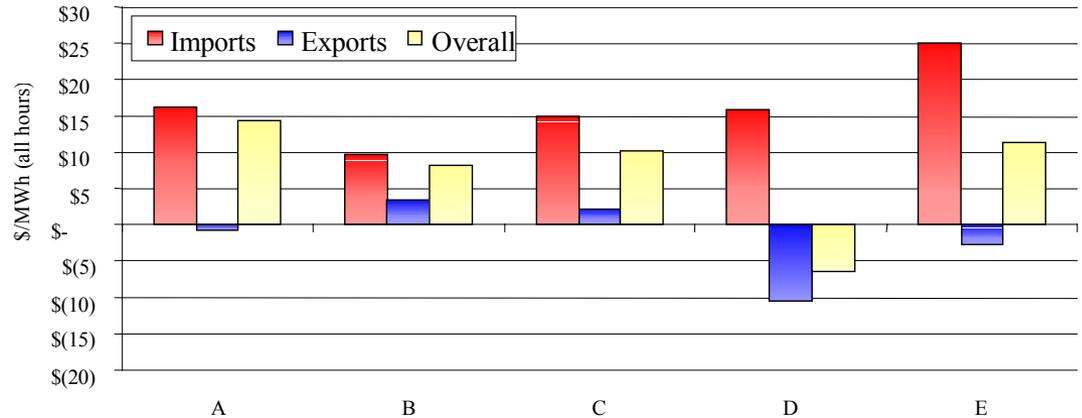
Imports & Exports

- Modest net importer in 2004
- Exports dominated by Powerex
- Imports dominated by Powerex and Northpoint

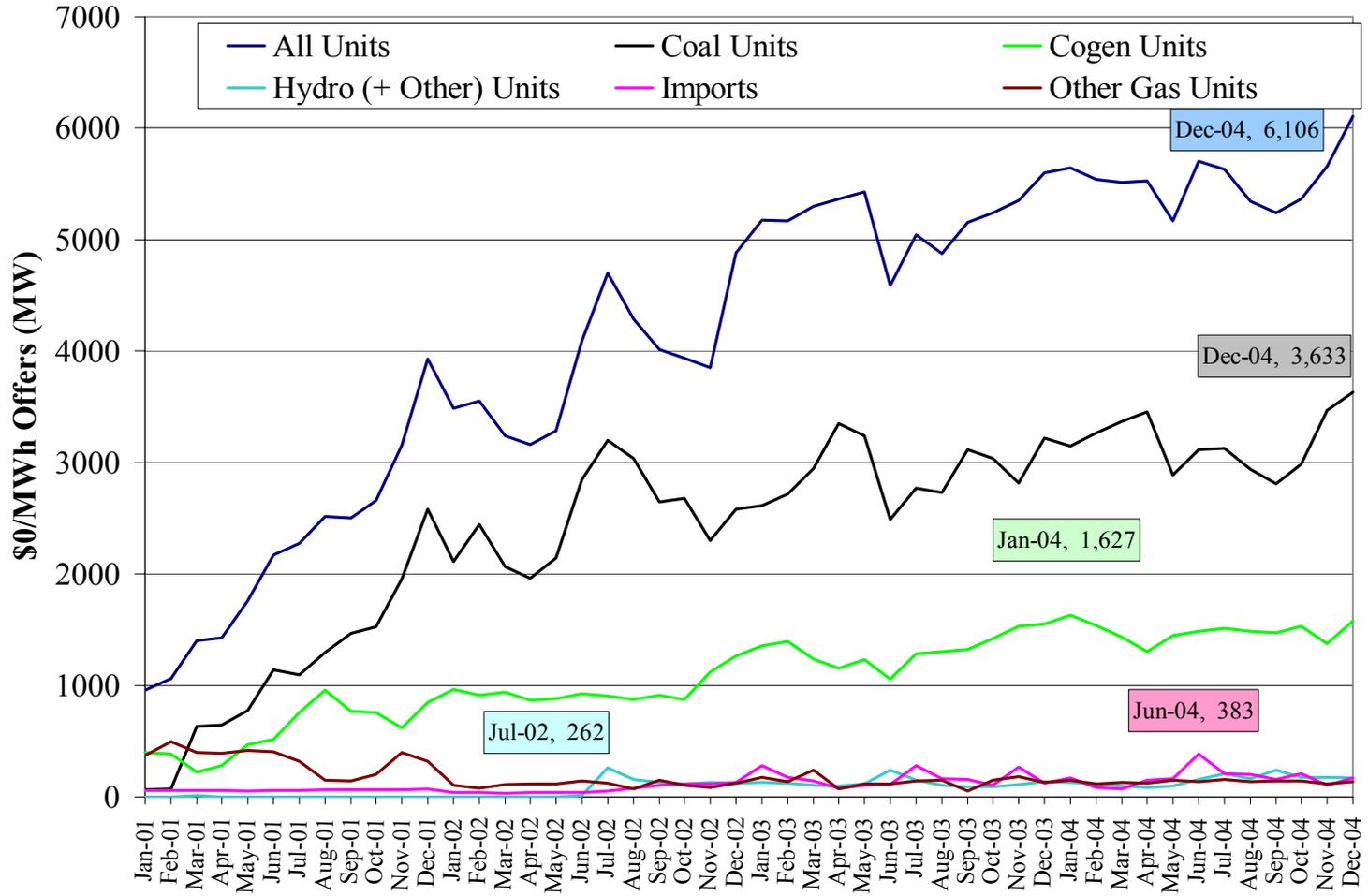


Economics of Imports/Exports

- Imports profitable overall
- Exports less profitable
- When deemed short high tolerance for red ink
- Structural fix needed



Zero Offers



Zero Offers

- MSA concern for some time – report in 2003
- Continued to grow
- AESO concerned with dispatching down a N-way tie where $N > 30$
- Need generators to rethink this strategy

Load Settlement

- PFEC – big slug in Q3, cleared in Q4
- PFAM – big carry over from 2003, largely cleared up now
- Notice of Dispute – 1 in Q4, resolved now
- UFE – exception reports still occur
- Enforcement Ladder – results appear satisfactory

Retail Market

- Very gradual switching away from RRT
- Competition for larger customers remains strong
- Future of RRT a concern for government and market participants
- Integration of retail with wholesale into the DOE's refinement options

Code of Conduct - Overview

- 2004 was a very busy year in respect of Code matters
- 14 full compliance plan approvals
- 7 interim reviews and approvals
- Default Supply Customer Information Issue
- Negative Option Issue
- Reporting guideline – audits and compliance plans

Interim Approvals

- Interim approvals were given to Enmax, Epcor and Fortis entities for Q1 and Q2 of 2004
- MSA decided to undertake a specialized review around interim approvals
- Grant Thornton LLP assisted MSA (did the field work)
- Results published March/April 2005

Code of Conduct – Looking Ahead

- Greater efficiencies in relation to Code
- Changed reporting and audit timing to better reflect business realities
- MSA looking at using review approach to handle Code audits (ie. will use one MSA hired auditor to conduct all audits on a common work plan)
- Coordination with EUB where possible

Trading Practices Guideline

- Description and Purpose
- Enforcement
- Future Activities in Support of the TPG
- Performance Evaluation

Description and Purpose of TPG

- Guideline per s. 49(4) of the EUA
- *“Participants must not trade on the basis of known but not public information”*
- To date, focus of the TPG has been on increasing transparency around outage information
- Accomplished thru Information Disclosure Procedure
- Active enforcement began July 2004

Future Activities in Support of the TPG

- Improve process for submitting, reporting, and publishing information to align the reporting of outages closer to real-time
- Develop performance metrics for evaluating TPG efficiency

TPG Performance Assessment

- Commitment to evaluate performance of the TPG and take action, if necessary
- Period to be assessed – July 2004 to June 2005
- Utilize metrics related specifically to the TPG
- Competitive market metrics
- MSA will keep participants apprised as we develop the metrics
- Report back to market Fall 2005

Overview of Investigations

- Conducted five investigations during 2004
 - Three potential breaches of the TPG
 - Powerex Active Spinning Reserve review (Informal Investigation)
 - Competitiveness of the Market for TMR services

TPG Investigations

- Investigated three potential breaches of the TPG
 - Two cases involved trading activity by PPA Owners and Buyers
 - One case involved trading prior to being disclosed to the AESO per OPP 601
- Concluded breaches of the TPG occurred

Outcome of the TPG Investigations

- MSA chose to exercise its powers of forbearance
 - Nascent nature of the TPG at the time of the breaches
 - Sensitive to learning curve issues
- Elected not to pursue remedies available under the EUA
- However, parties committed to improving policies and procedures

TMR Investigation

Key Questions

- Does a competitive market for TMR exist?
- If the answer to #1 is no, is it possible to design and implement a competitive market for TMR?
- If the answer to #2 is no, what are the alternatives to a competitive market?

Methodology

- Retained Charles River Associates

Investigation Findings

Overall

- Processes and outcomes for TMR, have not been consistent with the promotion of a fair, efficient and openly competitive process

Basis of Finding

- Expression of technical need overly narrow
- Balance of statutory roles
- Historically no formal process for selecting procurement process
- Dispute management

Process for Procuring TMR

- Identify TMR requirements as far out as possible
- Expression of interest – RFP – Bi-lateral – Arbitration – Mandated contracting
- Conscription moved out of dispatch timeframe, except in unforeseen emergencies, assigned to AEUB

TMR Recommendations (1)

AEUB

- Limit power of conscription, enforce med-term contracting
- Oversight role of TMR needs assessment
- Assure fair returns for enforced contracts
 - Economic principles for pricing TMR services

TMR Recommendations (2)

AESO

- Requirement to demonstrate use of competitive process, justify if not
- Clearer separation of roles between commercial, technical and operations
- Greater transparency of needs analysis and process
- Market interventions (non-RFP, conscription) reported to MSA, public report and action if necessary

TMR Recommendations (3)

DOE

- Provide guidance to AESO in interpreting roles, objectives and obligations
- Provide clarity on pricing principles in Transmission Policy/Regulation
- Strengthen EUB powers in order to implement MSA recommendations

MSA

- Role in monitoring and reporting on non-competitive processes

Follow-up to the Investigation

- AESO has indicated it is accepting the recommendations
- Other stakeholders indicated they will provide comments
- MSA will review and consider comments
- MSA advocacy for the recommendations
- Report should be considered in the policy discussion around the wholesale market review

Other Reviews

- Ancillary Services in Alberta: A White Paper
- OTC Transparency Issue
- Powerex Active Spinning Reserves Review
- Review of Regulating Reserve Performance

Outlook for 2005

- Focus on the four high-leverage principle to bring about increased confidence of participants, policy makers and the public at large:
 - Information-rich marketplace
 - Level playing field
 - High fidelity price signal
 - Let competition do the heavy lifting

Specific Undertakings for 2005

- Performance assessment of the TPG
- Code of conduct audits - July 2004 to June 2005
- Pursue equal access to all non-contracted industrial and commercial customer information
- Development of market metrics
- Streamline outage reporting - AESO's ETS system
- Develop procedures to ensure appropriate use of the tie-lines
- Other investigations and reviews as required