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MSA Report

Quarterly Report

July – September 2005

28 October, 2005

Market Surveillance Administrator

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Market Highlights

- The average wholesale electricity price in Q3/05 was $66.79/MWh which was up relative to last quarter (Q2/05: $51.46/MWh) and the same quarter last year (Q3/04: $54.33/MWh). The average Pool price year to date was little changed at $54.79/MWh as compared to $54.43/MWh for the 9 month period ended September 30, 2004.

- Average system demand in Q3/05 was 7412 MW which was up 0.2% relative to average demand in the same period last year.

- The implied market heat rate for Q3/05 was 7.4 GJ/MWh which was unchanged from last quarter but down substantially from 9.2 GJ/MWh in Q3/04.

- EPCOR announced its intent to proceed with decommissioning of the Clover Bar generating station.

- During Q3/05, the MSA published reports on Undesirable behaviour & Market Power, BC Tie line economics, and a review of the TPG/IDP. Conclusions of these reports are discussed herein; full reports are available for review at: www.albertamsa.ca .

1 REVIEW OF THE WHOLESALE ELECTRICITY MARKET

1.1 Electricity Prices

Electricity prices in the Alberta wholesale market averaged $66.79/MWh in Q3/05 which was up relative to $51.46/MWh last quarter and $54.33/MWh in the same quarter last year as is shown in **Table 1**. Price volatility as expressed by coefficient of variation (CV), moved lower in Q3/05 with the return of significant coal units including Sheerness #2, Sundance #4, and Genesee #1 that were off line due to maintenance during later Q2/05. **Figure 1** shows that while volatility during Q3/05 was reduced, average on-peak Pool prices were up substantially in the months of August and September. This is attributed to the frequent forced outages at coal plants in these months coupled with the substantial increases in gas prices driving the economics and thus the offer behaviour of gas generators over this period. Tie line curtailments due to maintenance also contributed to higher prices in Q3/05 as imports were less able to respond to elevated prices in the Alberta market relative to adjacent markets in late August and early September. The MSA published a brief report in late Q3/05 outlining these circumstances which led to significantly higher market prices in August relative to July.

Figure 2 shows price duration curves for Q3/05, last quarter, and for the Q3/04 period. The figure shows that prices in Q3/05 were above $100/MWh about 15% of the time relative to about 7% of the time for both last quarter and the same quarter a year ago, or about 173 additional hours above $100/MWh in Q3/05.

Table 1 - Pool Price Statistics

	Average Price	On-Pk Price	Off-Pk Price	Std Dev[1]	Coeff. Variation[2]
Jul - 05	37.75	45.93	28.23	35.04	93%
Aug - 05	88.33	106.26	63.50	74.13	84%
Sep - 05	74.30	104.67	36.34	63.90	86%
Q3 - 05	**66.79**	**85.62**	**42.69**	**63.66**	**95%**
Apr - 05	50.08	57.68	39.64	42.90	86%
May - 05	49.16	63.68	32.29	50.50	103%
Jun - 05	55.14	71.16	33.21	71.62	130%
Q2 - 05	**51.46**	**64.17**	**35.05**	**56.31**	**109%**
Jul - 04	56.55	65.18	45.61	44.94	79%
Aug - 04	50.17	63.00	33.90	45.25	90%
Sep - 04	56.33	68.76	40.79	47.79	85%
Q3 - 04	**54.33**	**65.65**	**40.10**	**46.07**	**85%**

1 - Standard Deviation of hourly pool prices for the period

2 - Coefficient of Variation for the period (standard deviation/mean)

Figure 1 – Pool Price with Pool Price Volatility

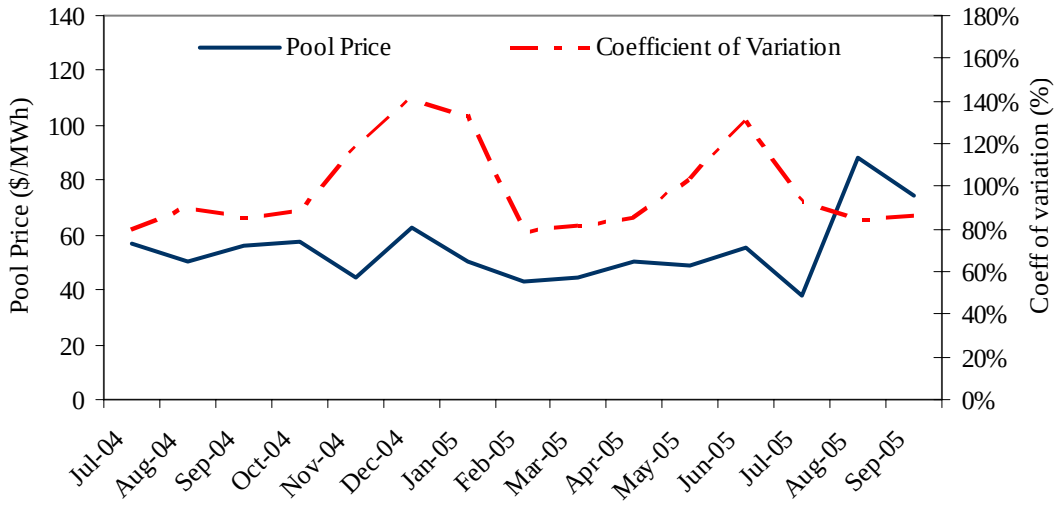
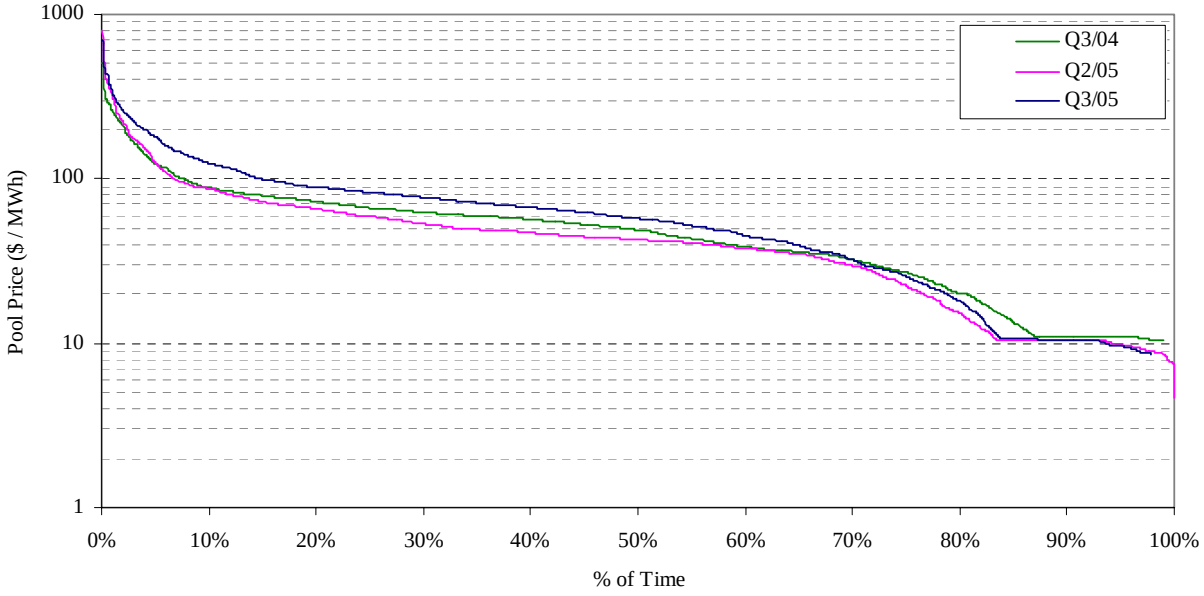


Figure 2 – Quarterly Pool Price Duration Curves

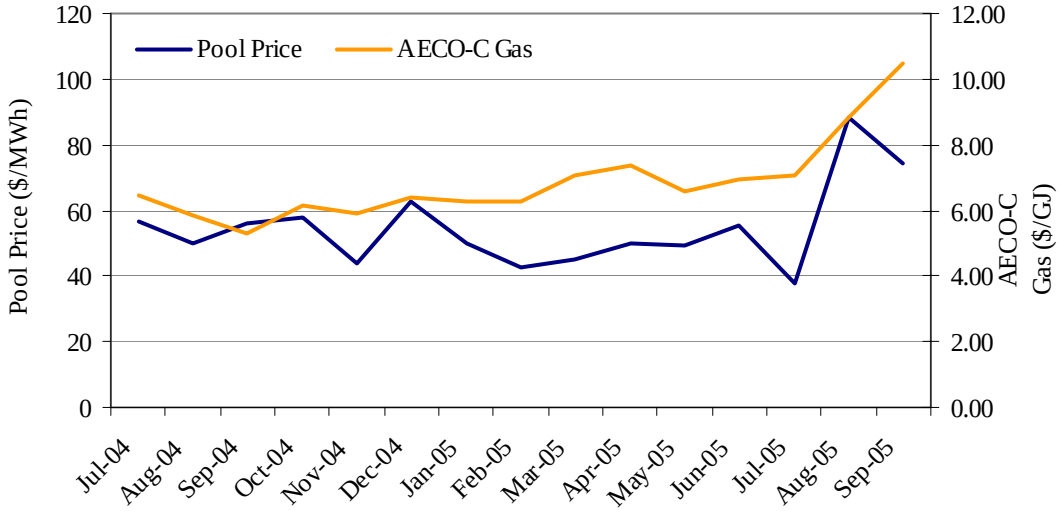


1.2 Natural Gas Prices

Natural gas prices climbed steadily through Q3/05 as a result of strength in crude prices as well as the effect of tropical storms striking vital production areas along the gulf coast resulting in infrastructure damage and shut-in of significant production volume. As previously noted, gas generators were more frequently setting marginal price in August and September as a result of numerous forced outages at coal plants which had

a beneficial impact to the trailing 12 month correlation between gas prices and Pool prices. This correlation was a robust 0.69 for the 12 months ended September 30, 2005 while a similar calculation 3 months ago showed no significant correlation. This suggests that Pool prices are intermittently driven to a greater extent by coal in certain periods which tends to de-couple the gas-electricity correlation.

Figure 3 - Wholesale Electricity Price with AECO Gas Price



1.3 Price Setters

The distribution of price setters is a metric tracked by the MSA which reflects a host of market dynamics including offer practices, prevailing market economics, and the makeup of the market's available generation mix in a given period. Generally a broad distribution of price setters is indicative of a highly contested market where no one entity is able to dominate marginal price setting. **Figure 4** shows the distribution of price setters by participant for Q3/05 relative to the previous quarter. It can be seen that price setting was more broadly distributed in Q3/05 as the leading marginal price setter did so 17% of the time vs 21% of the time in Q2/05 although at a slightly higher weighted average SMP. The leading 5 price setters in Q3/05 set SMP a total of 63% of the time as compared to 76% of the time last quarter.

Figure 5 shows similar data on the basis of generator fuel type. In Q3/05, Pool price was still strongly driven by coal generation as indicated by coal units setting price 57% of the time although to a lesser extent relative to Q2/05. Cogen units were approximately equal in significance to last quarter but at slightly higher weighted average prices while gas units were more significant relative to last quarter, setting price 17.5% of the time at a weighted average SMP of $130.58. The level of gas prices continued to be a driver in the level of price setting by gas relative to historical levels as high gas prices must be factored into generators offer prices.

Figure 4 - Price Setters by Submitting Customer (All Hours)

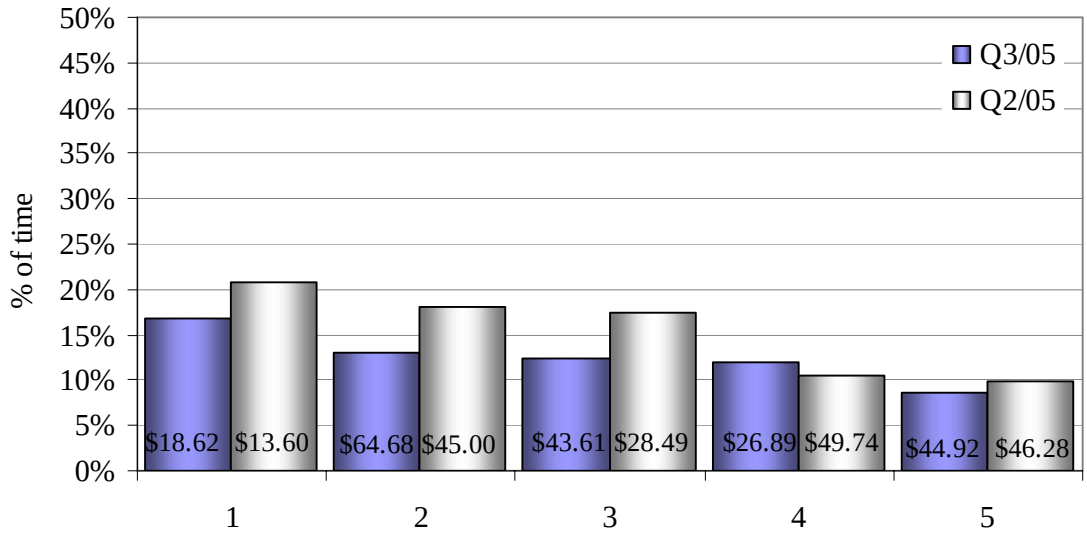
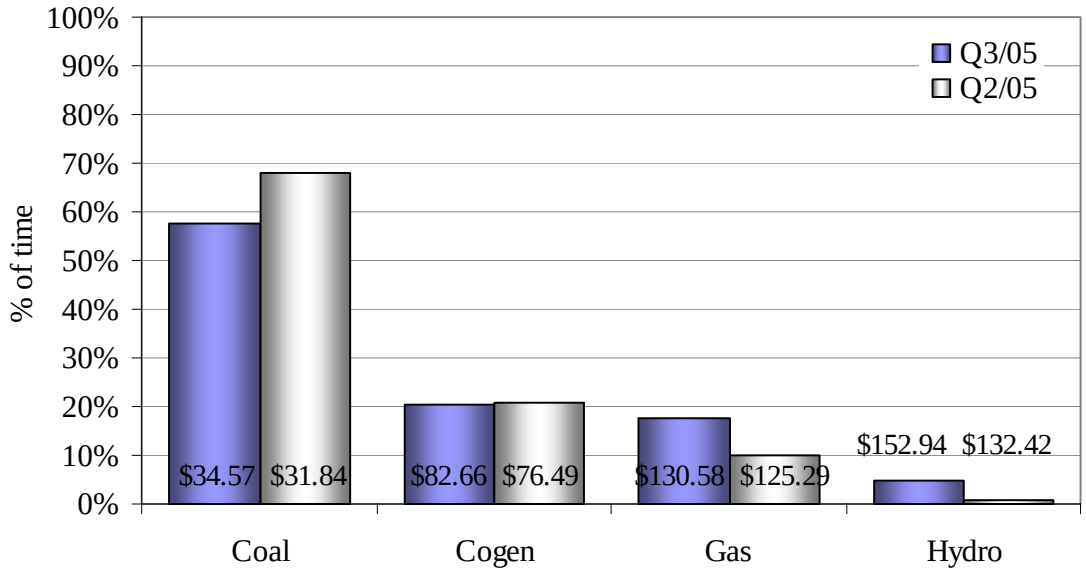


Figure 5 - Price Setters by Fuel Type (All Hours)



1.4 Implied Market Heat Rate

The implied market heat rate in Q3/05 averaged 7.4 GJ/MWh which was unchanged from Q2/05 but down significantly from 9.2 GJ/MWh in Q3/04. This indicates that while Pool prices in Q3/05 were substantially higher than the same period a year ago, economics for gas generators were worse. **Figure 6** shows that on and off peak heat rates peaked for the quarter, in August, averaging 11.9 GJ/MWh and 6.6 GJ/MWh respectively. For the 9 months ended September 30, the average implied market heat rate stood at 7.3 GJ/MWh. The heat rate duration curves in

Figure 7 show that the distribution of heat rates in Q3/05 was not substantially different from Q2/05.

Figure 6 - Implied Market Heat Rates – Q3/05

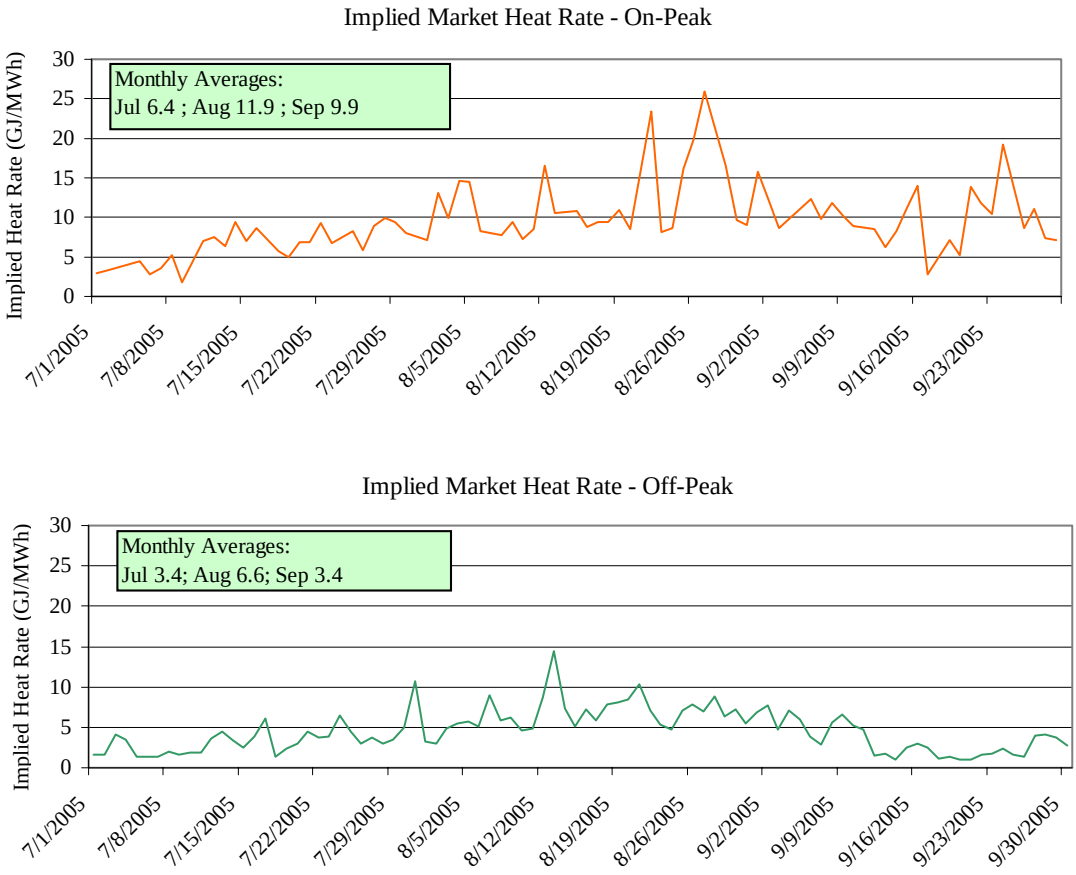
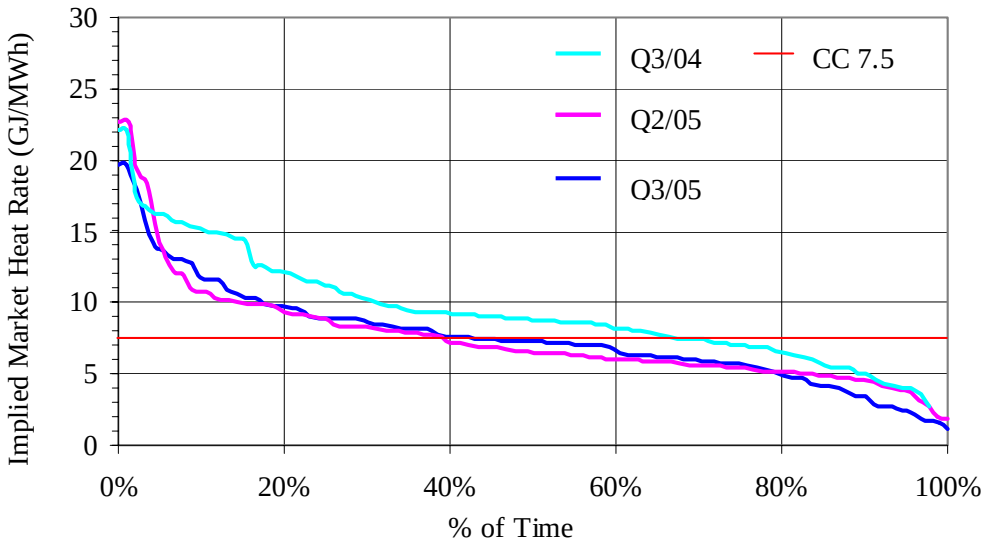


Figure 7 - Quarterly Heat Rate Duration Curves - (All Hours)



1.5 New AESO Rules

The AESO continues working toward implementation of the new electricity market policy framework around short-term adequacy (STA). The AESO together with an STA participant working group has formulated a series of "Quick-Hits" recommendations which remain in a consultative process. As such, these are unlikely to see implementation before the end of 2005. The Quick Hits package is the start of the implementation phase of the DOE's wholesale market policy. As such, these are the first set of significant market changes in several years. The MSA will be adapting its monitoring processes to keep pace with these changes.

1.6 New Supply and Load Growth

No significant new generation was brought on line during Q3/05.

The monthly average hourly system demand in Q3/05 was:

July	7422 MW	-0.4% vs. Jul 2004
August	7452 MW	+0.7% vs. Aug 2004
September	7360 MW	+0.3% vs. Sep 2004

1.7 Imports, Exports, and Prices in Other Electricity Markets

Activity on the interties between Alberta and BC and Saskatchewan is a significant part of the operation of the Alberta electricity market as the total intertie capacity is about 11% of average Alberta Load. **Table 2** summarizes the activity on the tie-lines for Q3/05.

Table 2 - Tie Line Activity Q3/05

	BC			Saskatchewan			Overall		
	Imports (MWh)	Exports (MWh)	Net Imports (MWh)	Imports (MWh)	Exports (MWh)	Net Imports (MWh)	Imports (MWh)	Exports (MWh)	Net Imports (MWh)
July	60,208	108,747	(48,539)	18,990	10,051	8,939	79,198	118,798	(39,600)
August	71,327	80,682	(9,355)	83,874	639	83,235	155,201	81,321	73,880
Sept	39,697	61,657	(21,960)	61,078	821	60,257	100,775	62,478	38,297
Total	**171,232**	**251,086**	**(79,854)**	**163,942**	**11,511**	**152,431**	**335,174**	**262,597**	**72,577**

Alberta was an overall importer for the third quarter with 72,577 MWh of net imports, comprising 152,431 MWh net imports on the Saskatchewan tie line and 79,854 MWh net exports on the BC tie line. Imports on the BC tie line were significantly lower in Q3 than in the previous quarter. Though Alberta pool prices increased by 30% from Q2 to Q3, the 60% increase in the Mid-C on peak prices resulted in BC imports being less abundant than the previous quarter. Reduced on peak BC import capacity in September was due to tie line restrictions.

The high volumes of energy exported over the Saskatchewan tie line during July was supported by the significant price spread between Alberta and Minnesota. Record breaking precipitation on the Prairies supported the unusually high volumes imported on the Saskatchewan tie line during August and September.

Figure 8 shows the relative market shares of importers and exporters in Q3/05. The figures include imports and exports on both the BC and Saskatchewan tie-lines. The most active importer operated mostly on the Saskatchewan tie line and the close second operated mostly on the BC tie line, imports were significantly more balanced, with 36% - 33% market shares (compared to 16% - 45% last quarter) between the two most active participants, in part due to increased imports on the east.

Exports were dominated by one participant sending energy westwards, particularly during off peak hours 94% of all exports over the BC tie line occurred during off peak hours. This is expected as BC has significant hydro reserves and can as such benefit from producing more energy during on peak hours, and selling at higher prices, and importing energy to meet local demand at low prices during off peak hours. The dominating exporter lost 2.5% market share (down to 87%) from the previous quarter.

Figure 8 - Market Share of Importers and Exporters, Q3/05

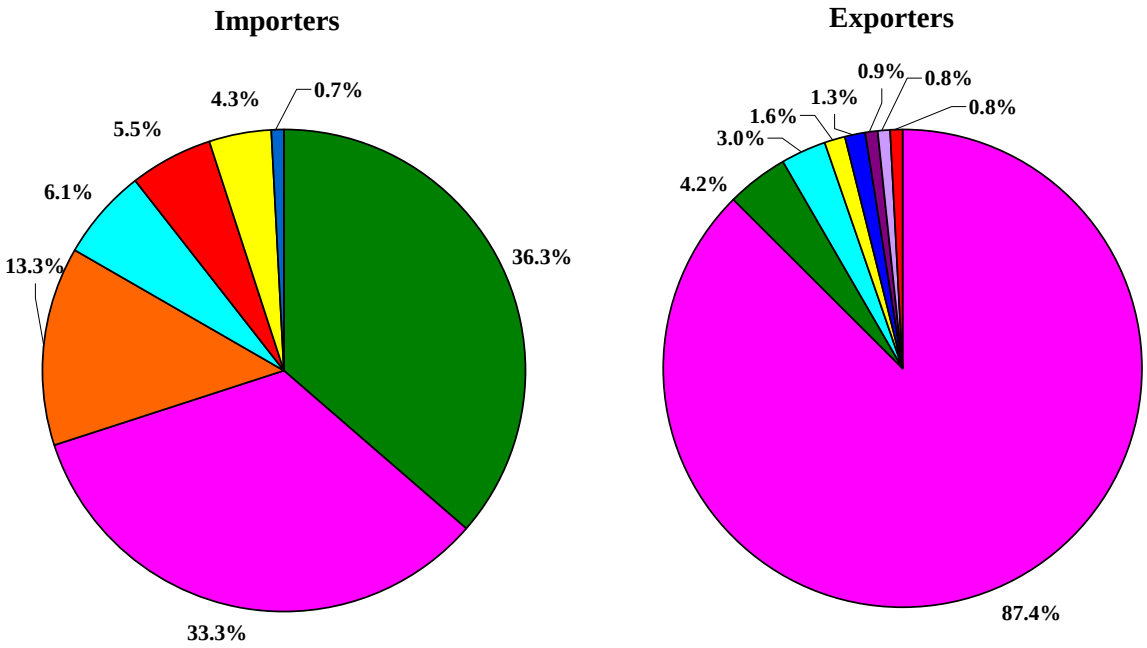
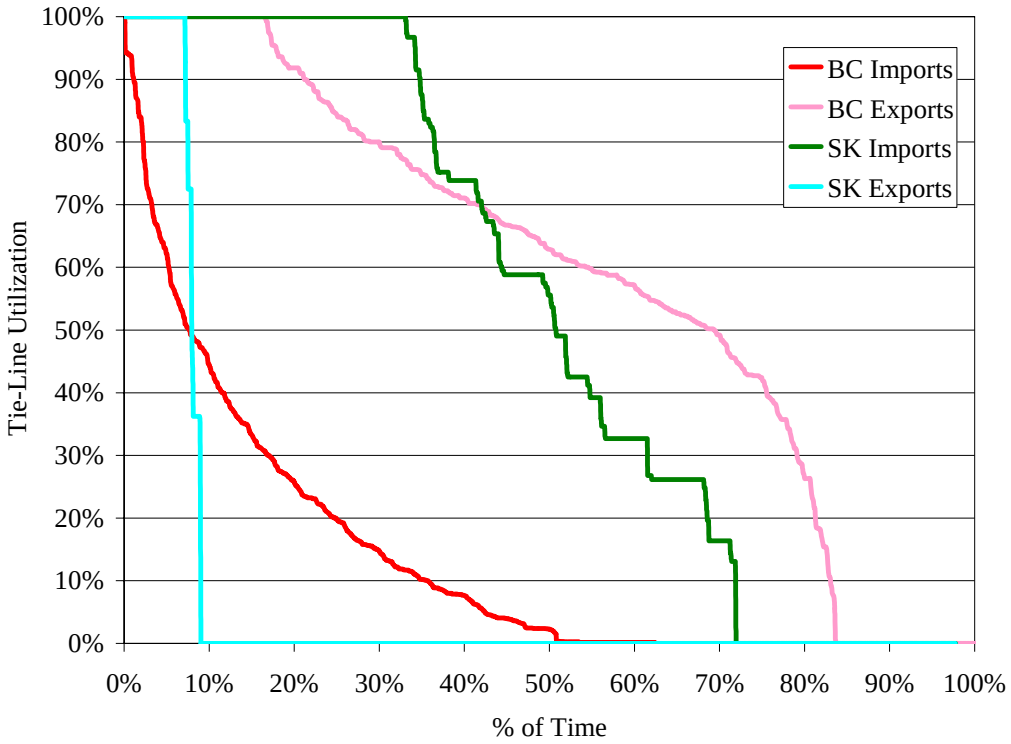


Figure 9 shows a duration curve of tie-line utilization in Q3/05 as a function of posted available transfer capability (ATC)[1]. The figure shows that there is often some unutilized capacity available on both of the tie-lines. BC export ATC was the most effectively utilized in Q3/05 as there was some volume of energy being exported from Alberta to (or through) BC approximately 84% of the time that the line was available. Overall there was an increase in the import and export utilization of the SK intertie as well as BC export utilization of the tieline. BC import utilization did however decrease.

It is not reasonable to expect all of the tie-lines to be full, or even in use, 100% of the time. A number of factors including (but not limited to) transmission access, market price and the market position of each participant contribute to determining whether or not it is profitable to make use of the available tie-line capacity.

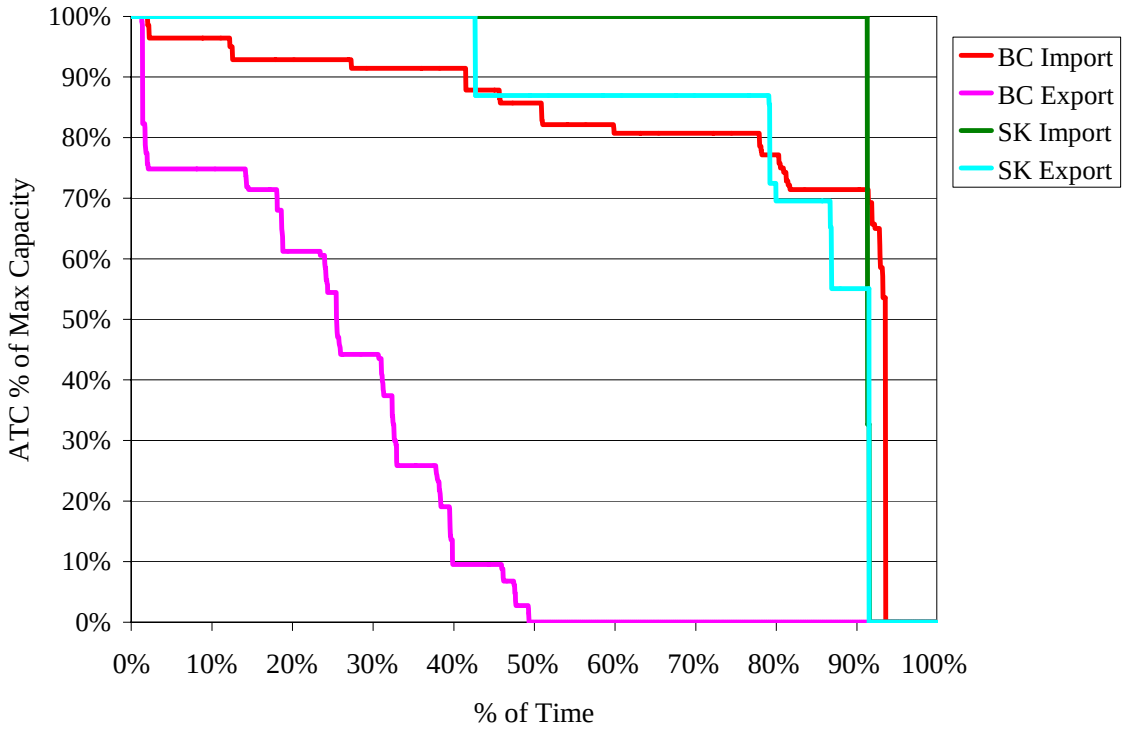
Figure 9 - Tie-Line Utilization, Q3/05



[1] ATC is the maximum amount of energy which can be moved across the tie-line in any given hour. For example, if the ATC of an intertie for an hour was 500 MW and only 200 MW flowed across that line in that hour, the utilization would be 200/500 or 40%. ATC is posted on the AESO website and varies on an hourly basis.

Figure 10 shows tie line capacity divided by the maximum value over Q3/05. Values are generally high. The exception is BC export capacity, of which only 24% of the total capacity for the quarter was actually available. Export capacity is often constrained by operational issues here in Alberta. These constraints are being addressed by the AESO however it will be several years before they are overcome.

Figure 10 - Tie-Line Availability, Q3/05



Activity on the tie-lines can be highly dependent on the Alberta market price. **Figures 11 and 12** plot total monthly imports with a weighted average monthly pool prices and total monthly exports with weighted average monthly pool prices respectively for the July 2004 through September 2005 period.

Figure 11 - Imports and Weighted Average Pool Price

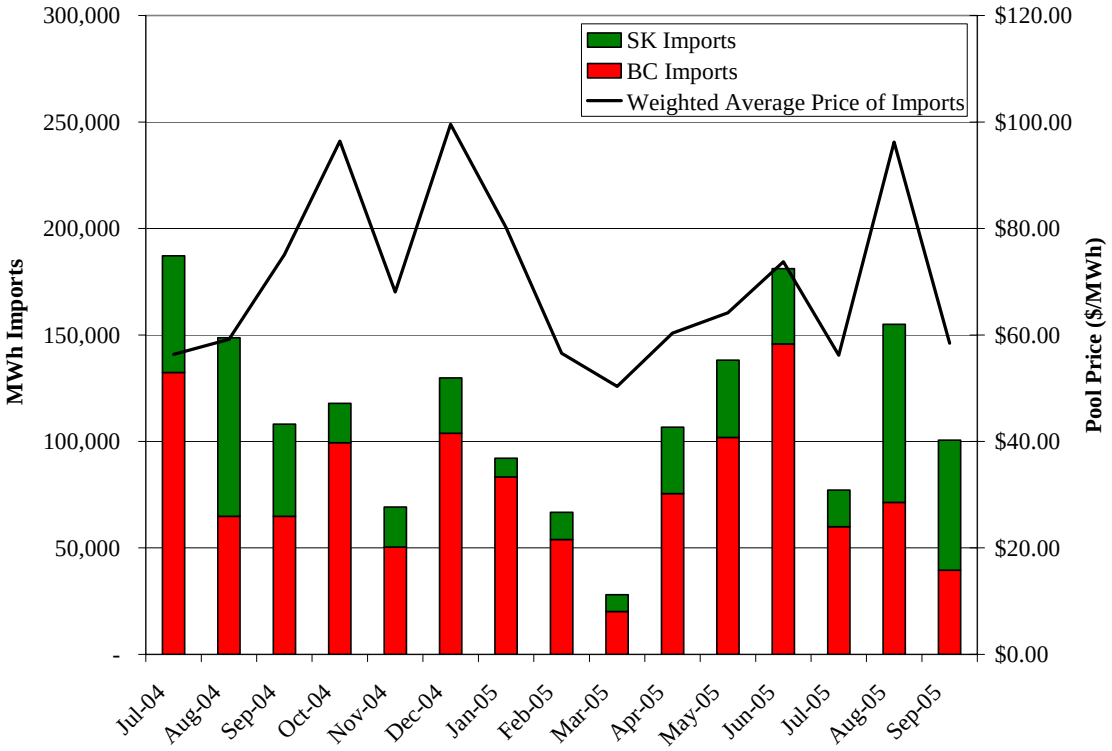
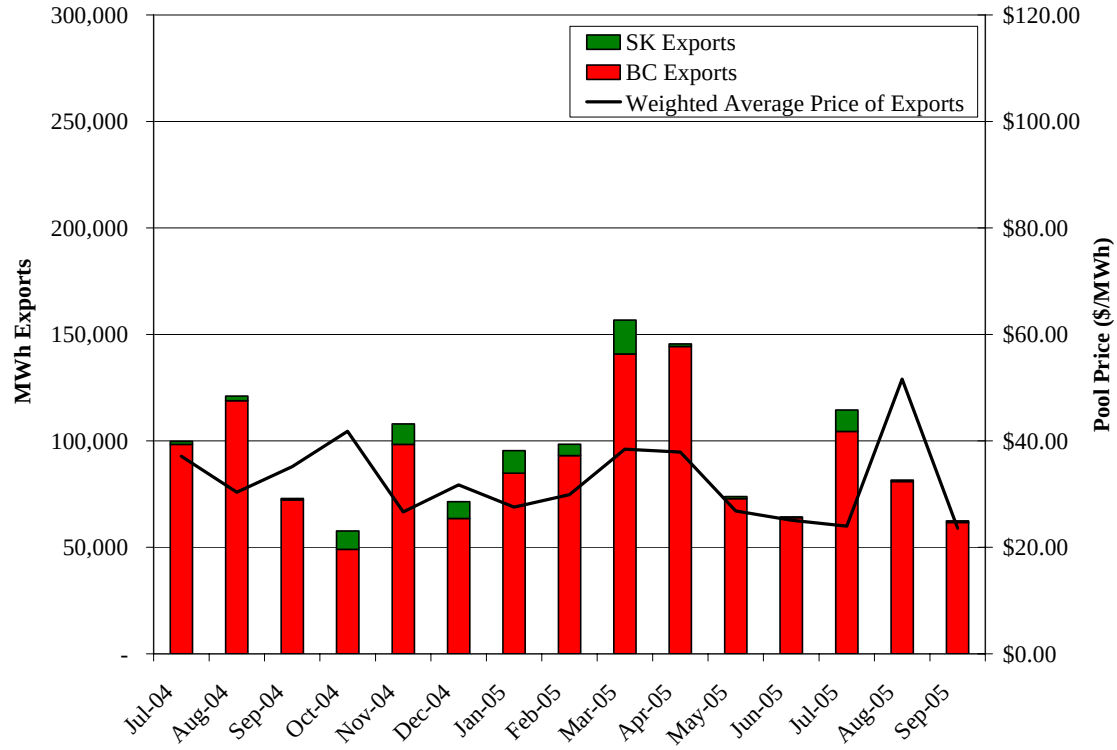


Figure 12 - Exports and Weighted Average Pool Price



Over the quarter, import volumes corresponded fairly well with Pool prices – as prices increased, the volume of imports increased. The expected inverse relationship between Pool price and export volumes was rather less apparent during the quarter.

Prices in other markets have an impact on the economics of moving electricity into and out of the province. Although neither of Alberta's neighbors operates a competitive electricity market, electricity is often moved through these areas and into adjoining markets. **Figures 13 and 14** show monthly average on-peak and off-peak price indices for the Mid West ISO (MISO) and Mid-C in the Pacific Northwest which are compared to Alberta Pool price. All prices are in Canadian dollars and have been converted at daily exchange rates.

Figure 13 - On-Peak Prices in Other Markets

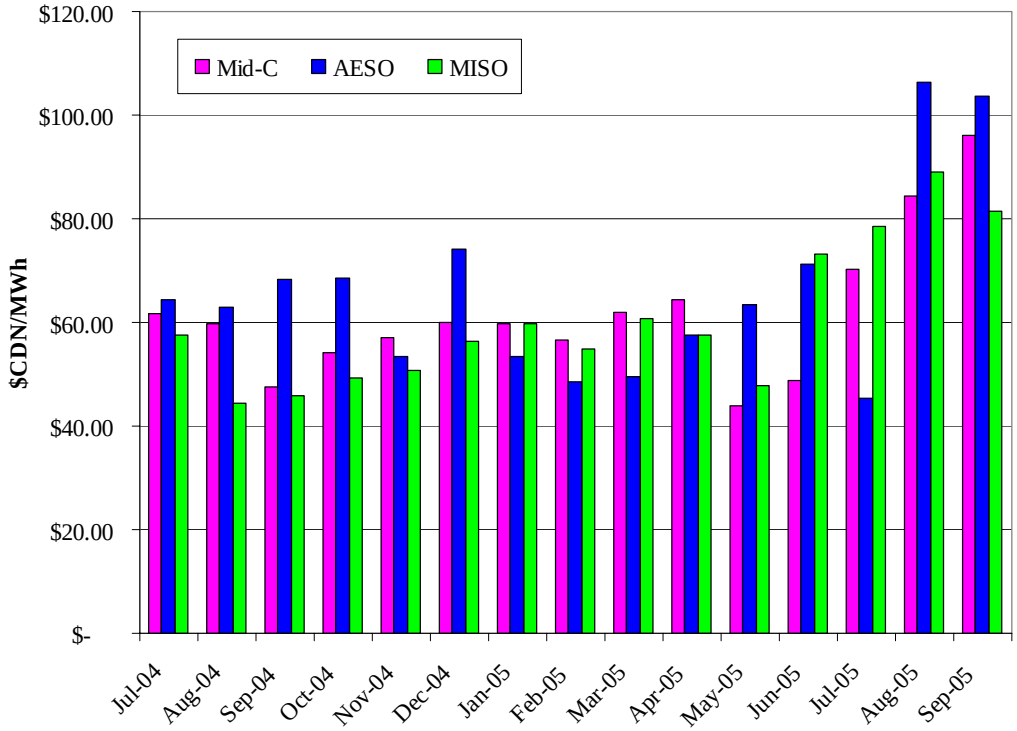
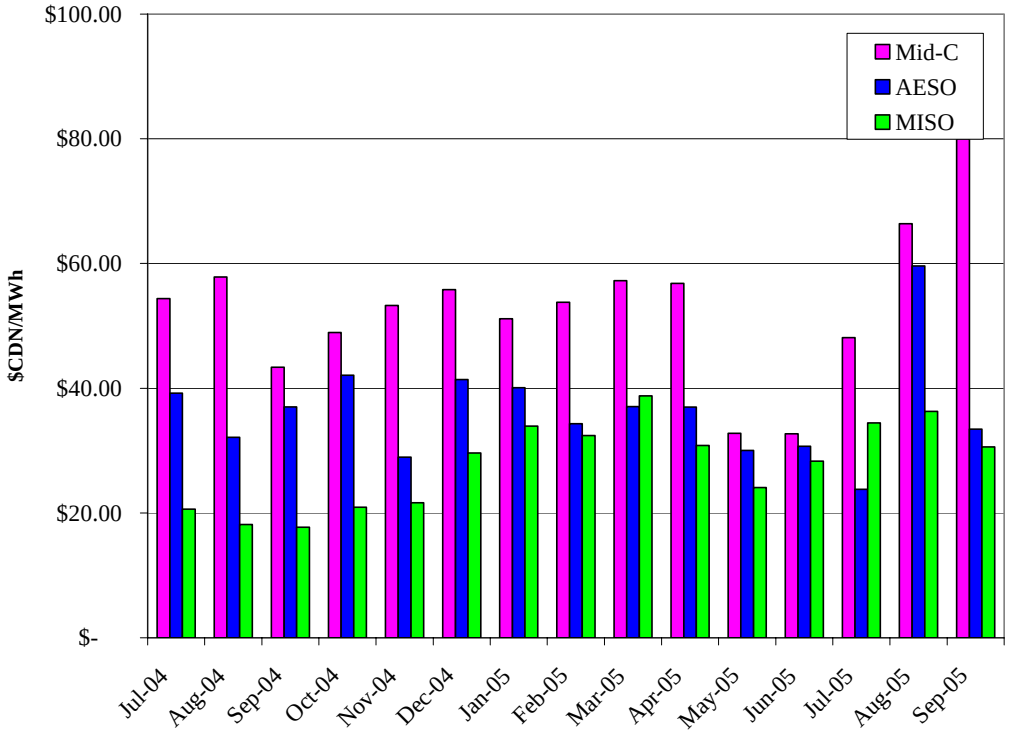


Figure 14 - Off-Peak Prices in Other Markets



On-peak Prices for MISO (specifically Minnesota Hub reference point) and Mid-C were well above Pool prices during July which would make it attractive to economically export from Alberta to MISO and Mid-C. August and September saw opposite comparative on-peak economics which explains the decrease in exports and increase in imports observed for those months.

Imports into Alberta are mostly driven by On-Peak price differentials while exports tend to be driven by off-peak prices. Tie line maintenance limiting BC intertie availability, may have restricted the ability of participants to benefit from price differentials[2] during parts of August and September.

1.8 Ancillary Services Market

Active Reserves Market

Settlement prices for total active reserve procurements in Q3/05 (Exchange-traded & OTC) as shown in **Figure 15**, were up over levels of last quarter which reflected the higher average Pool prices seen in Q3/05. Settlements for active supplemental reserve did not keep pace with

[2] The difference in the price at which energy can be bought and sold gives an indication of the economically correct direction for energy to be moving across the tie-line. For example, if the Pool price in Alberta is $50/MWh and the price at MID-C is $100/MWh, it would be most economically efficient to buy energy in Alberta and sell it at MID-C (i.e. exporting). Energy being imported during that price scenario would be seen to be economically inefficient use of the tie-line.

Regulating and Spinning reserves. Trade indices for active regulating and spin (not shown) fell in August and September although supplemental indices fell disproportionately further.

Figure 15 - Active Settlement Prices - All Markets (Watt-ex and OTC)

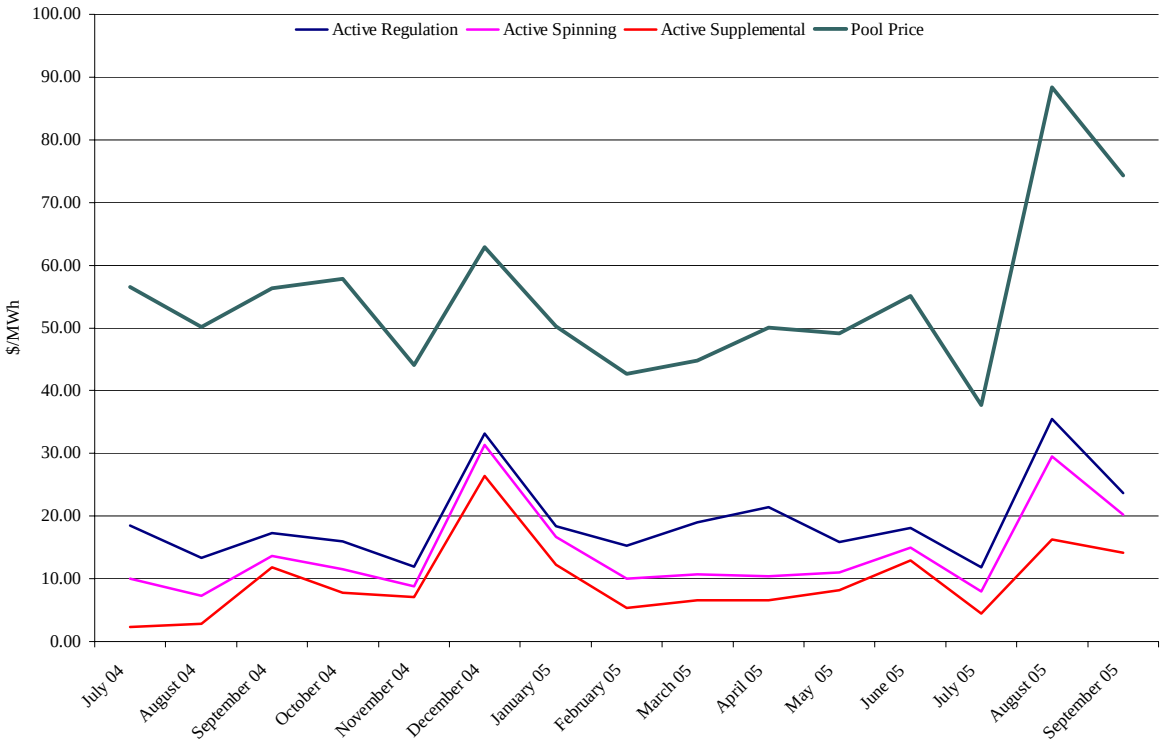


Figure 16 shows standby reserve premiums over the last 15 month period. Standby premiums fell sharply in July after increasing through Q2/05 but then recovered through August and September. The growing differential between Regulating and Spinning premiums observed in Q2/05 closed in Q3/05 as the substantially lower activation prices for Regulating through Q2/05 shown in **Figure 17**, moved closer in step with Spinning activation prices.

Figure 16 - Standby Premiums - All Markets (Watt-ex and OTC)

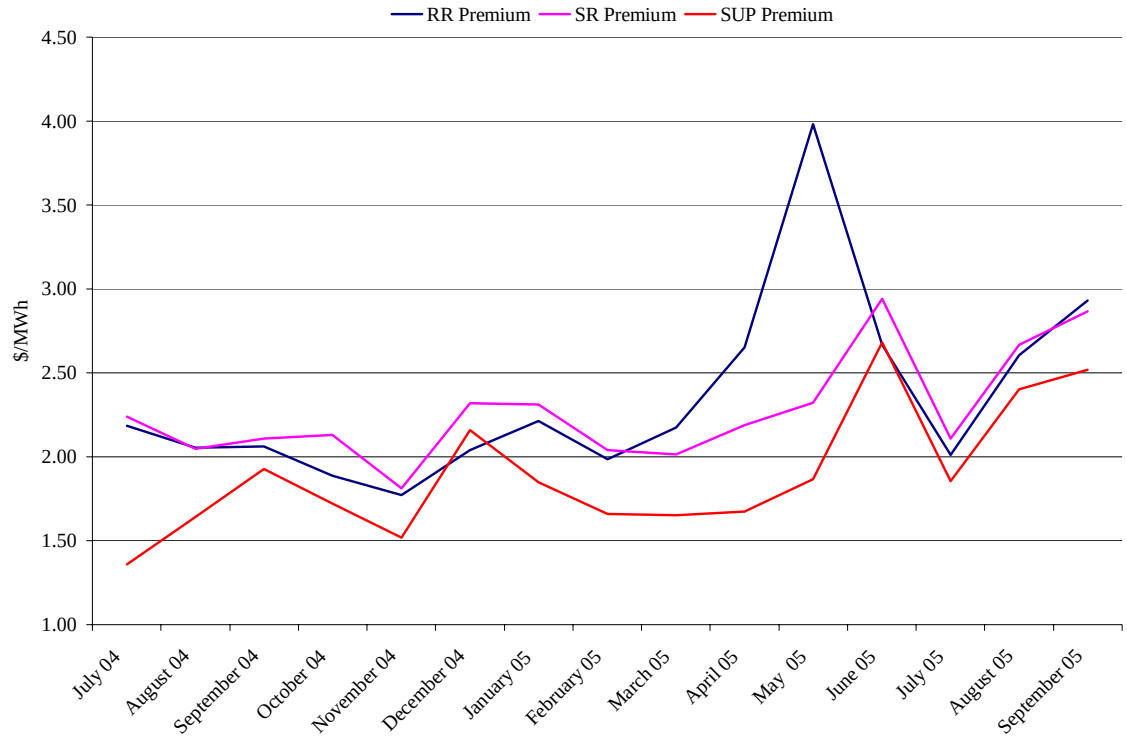
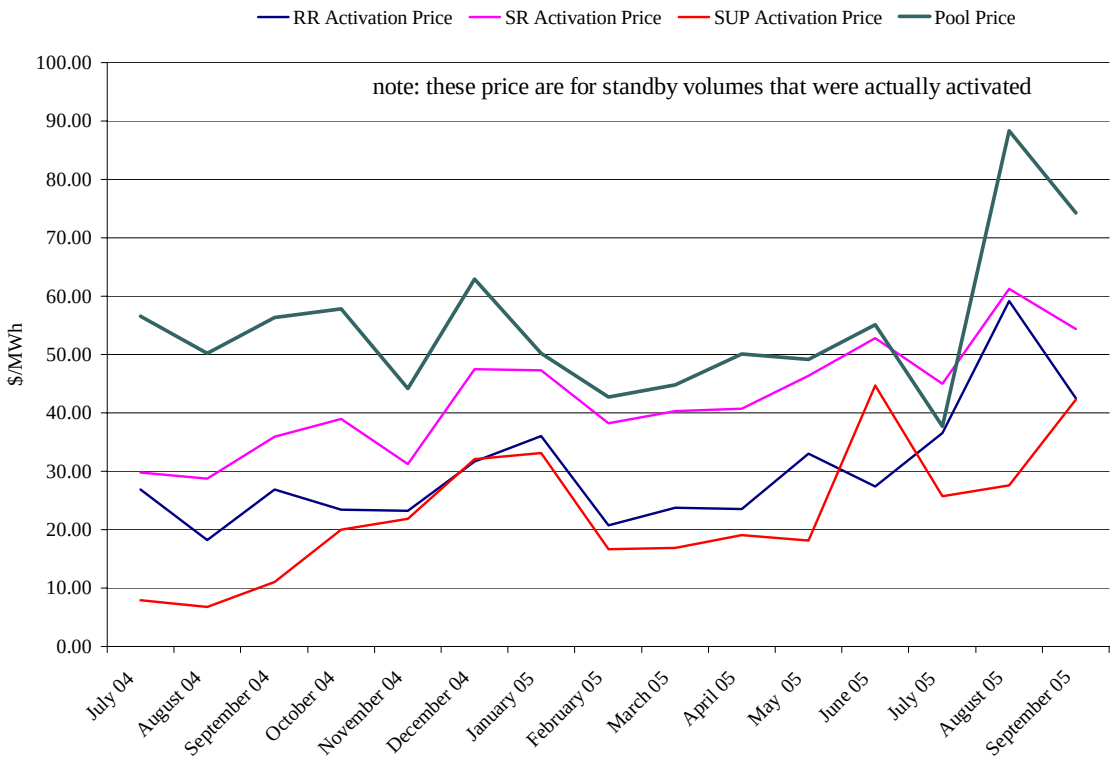


Figure 17 – Activation Prices – All Markets (Watt-ex and OTC)



Activation rates for standby regulating and spinning reserves modestly increased through Q3/05 as shown in **Figure 18** while activation rates for standby supplemental dipped in August. Activation rates remain low relative to the trailing 12 month period.

Figure 18 - Standby Activation Rates

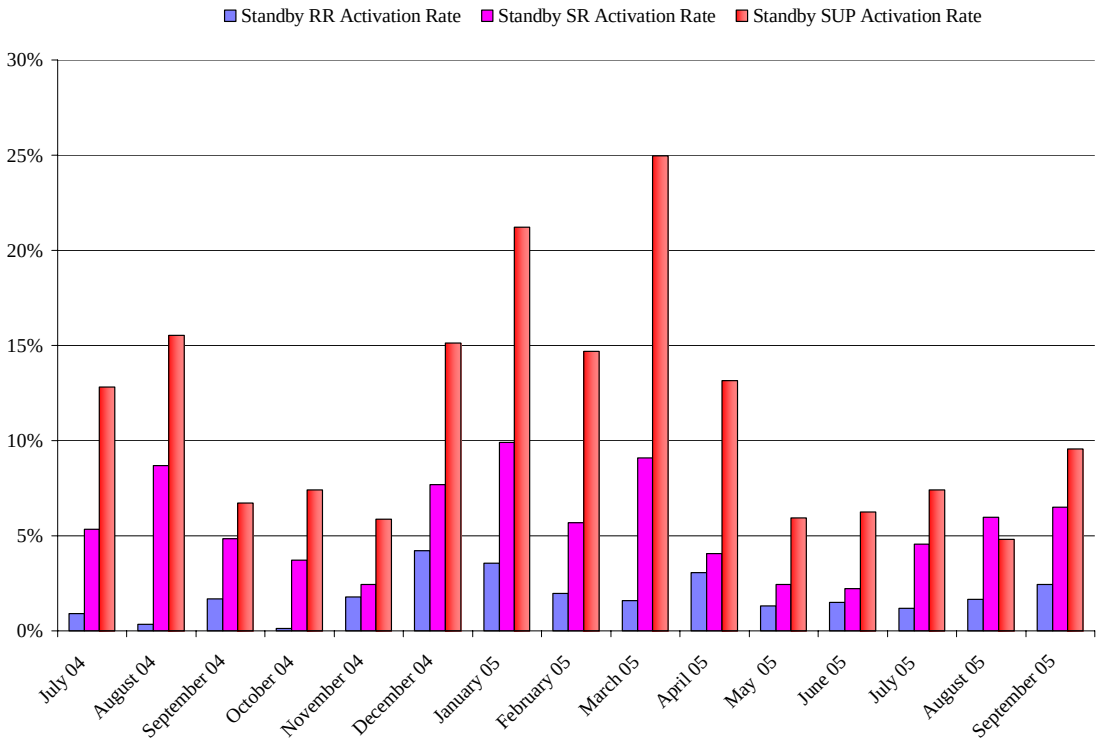


Figure 19 shows the proportion of active reserves procured OTC, with the balance procured through the Alberta Watt-Exchange. OTC procurements in Q3/05 were up over the previous quarter however, there appears to be a generally decreasing trend in OTC share of volume procurement over the trailing 15 months. Longer term supply contracts tend to be transacted OTC and this has a tendency to influence the distribution in certain periods. OTC procurement also has a higher administrative burden for the AESO and this may be resulting in a desire to reduce reliance on the OTC market for reserves procurement.

Figure 19 - OTC Procurement as a % of Total Procurement

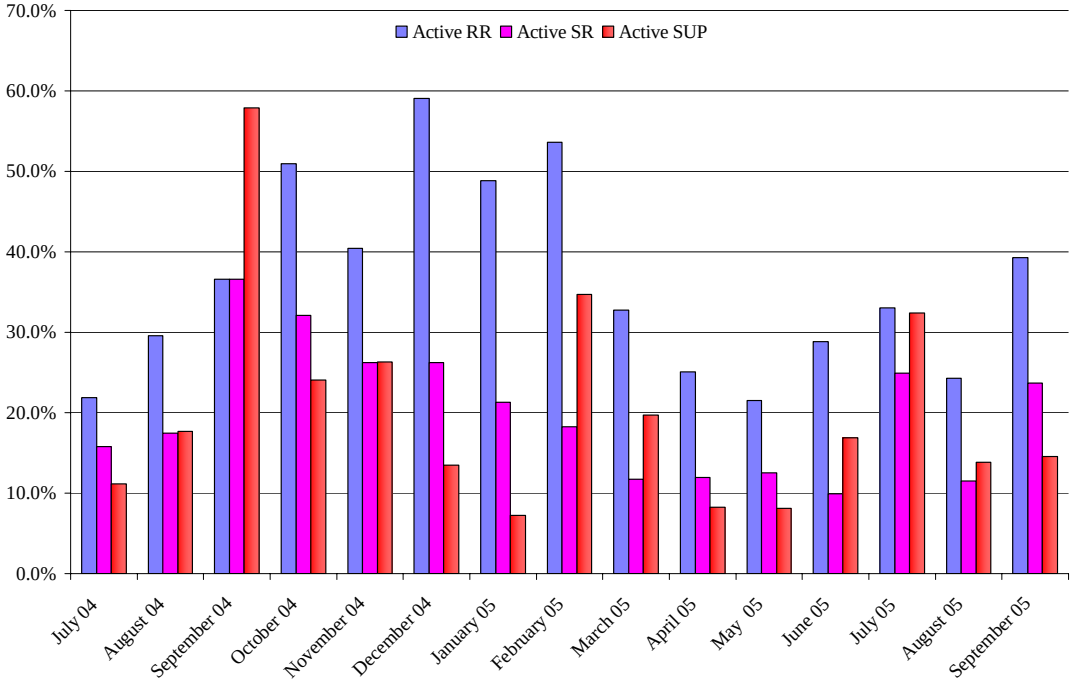
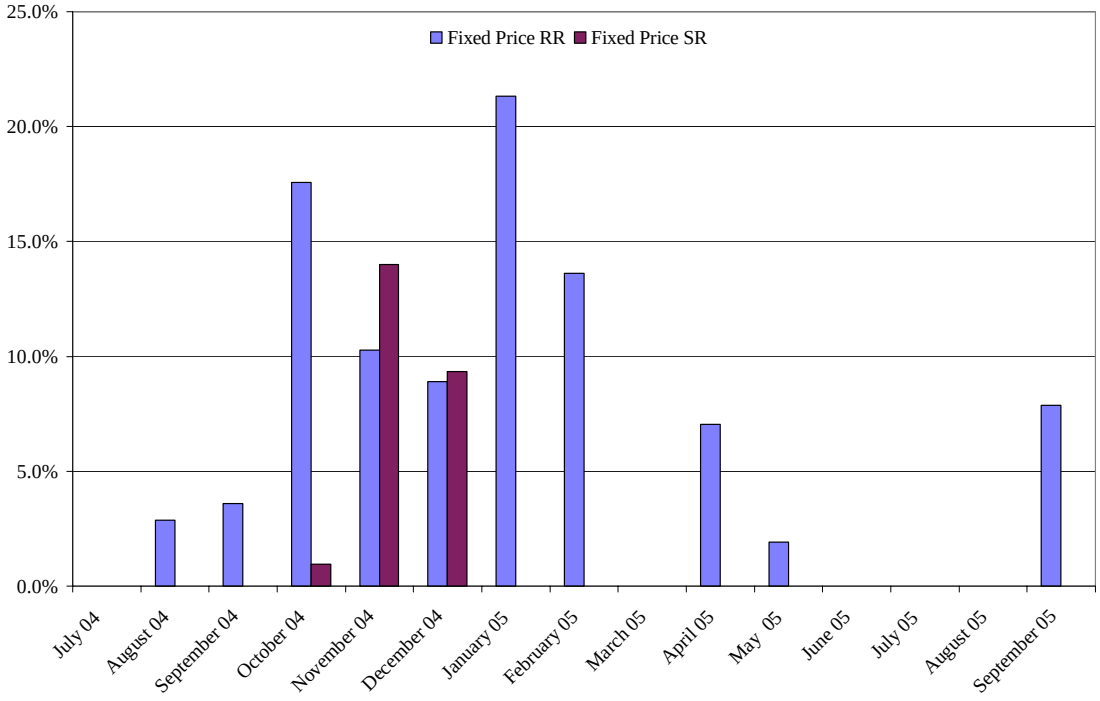


Figure 20 shows the percentage of regulating and spinning reserves that were purchased at fixed prices rather than the standard form of index to Pool price. Fixed price transactions for regulating reserve have been more prominent than for spinning reserve likely since the seller is still exposed to Pool price while generating within their regulating range. Overall fixed price procurements were less prominent in Q3/05 than in the preceding four quarters.

Figure 20 - % of Active Regulating and Spinning Purchased at Fixed Price



Figures 21, 22, and 23 show settlement prices for active regulating, spinning, and supplemental reserves respectively on an overall basis and on a segregated basis between exchange-traded and OTC procured volumes. OTC procurements that are custom products tend to command a modest premium relative to standard products transacted via exchange. In certain periods OTC has also been a vehicle for procurement of standard reserve contracts (ie: fixed volume, on-peak) and there would be no reason to expect these contracts to trade at prices materially different from exchange-traded contracts. Regulating reserve settlements for Q3/05 showed substantially the same settlement for OTC and Watt-Ex in July and August although the OTC component was substantially higher priced in September. The all markets settlement shown in **Figure 21** which approximately splits the OTC and Watt-Ex lines for September, suggests substantial volumes associated with the OTC component. In fact, **Figure 19** confirms that OTC volumes comprised a substantial 40% of active regulating reserve volumes in September. Watt-Ex settlements were in fact, exceptionally low in September as a result of aggressive discounting of on-peak regulating contracts. The MSA is looking into this outcome for the month of September in further detail. Spinning reserve settlements indicated a substantial premium in August and September OTC volumes however on modest volumes. Supplemental reserve settlements followed much the same pattern as spinning reserves in Q3/05.

Figure 21 - Active Regulating Reserve Settlement by Market

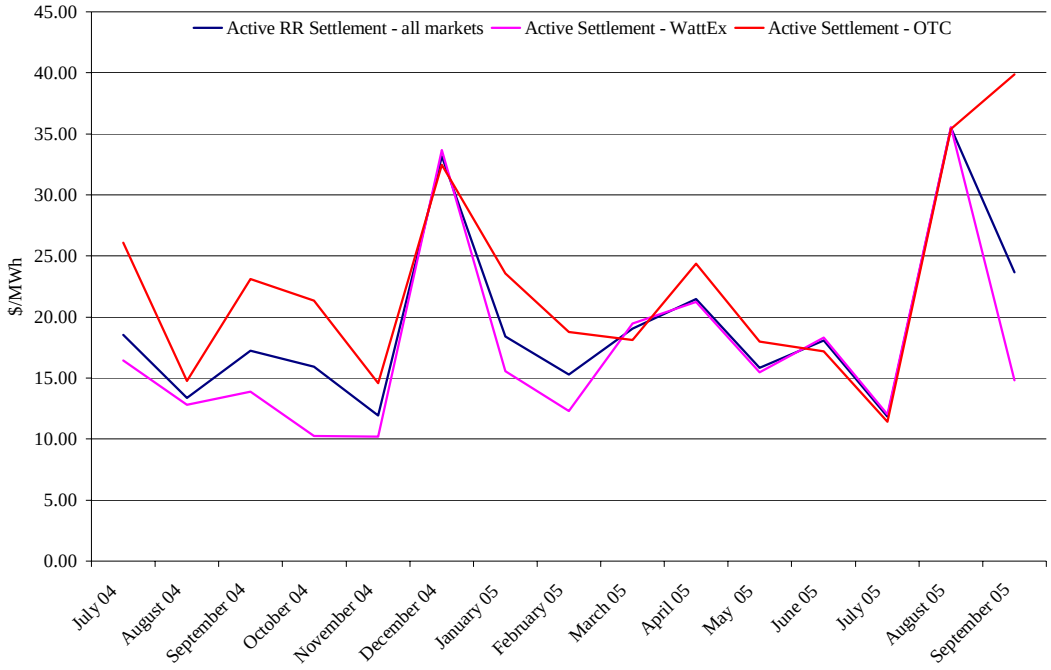


Figure 22 - Active Spinning Reserve Settlement Price by Market

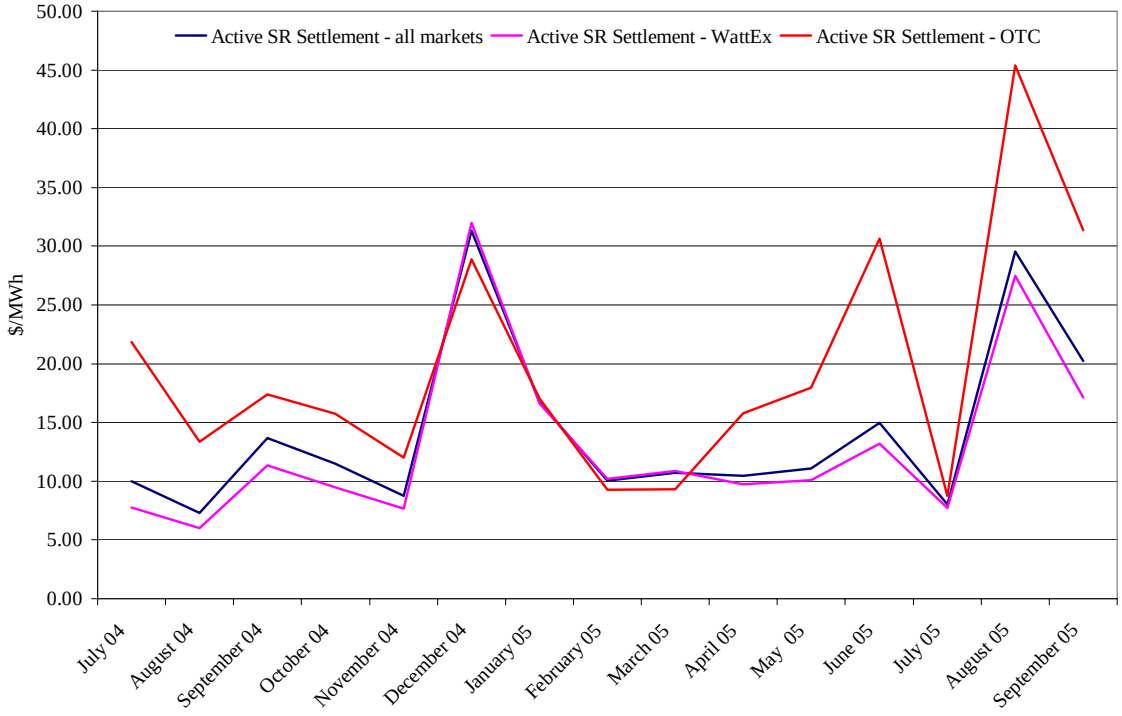
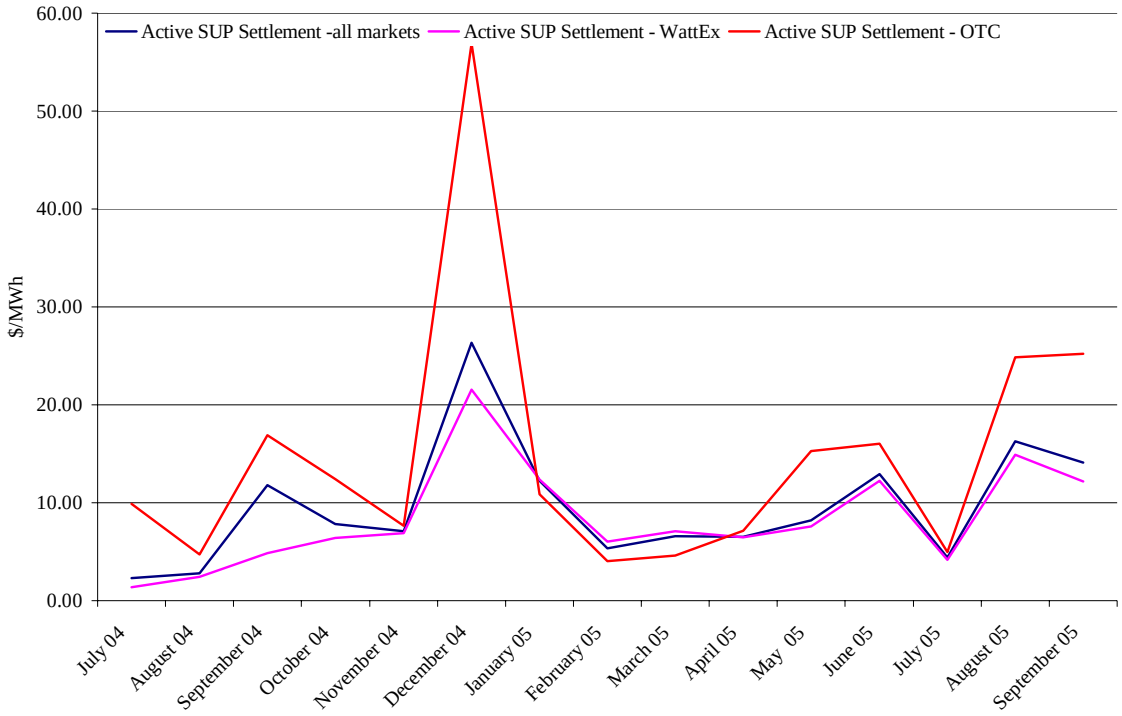


Figure 23 - Active Supplemental Reserve Settlement Price by Market



Figures 24, 25, and 26 show market shares for each reserve type on the basis of fuel type of the seller. For regulating reserves, the increase in hydro share observed later in Q2/05 continued into early Q3/05 with hydro taking a dominant 76% market share in July before falling back to the low 60% range for the balance of the quarter where hydro had been for most of 2005.

For spinning reserves, the BC tie line share trended down in Q3/05 after remaining relatively constant over the preceding 12 months at about 25% market share. Tie line availability due to curtailments during Q3/05 was a likely driver.

The supplemental reserve shares indicated a continuation of a 'back and forth' dynamic between gas and hydro from last quarter as load share remained essentially constant and coal and the tie line were non-factors as was the case in Q2/05.

Figure 24 - Regulating Reserve Market Share by Fuel Type

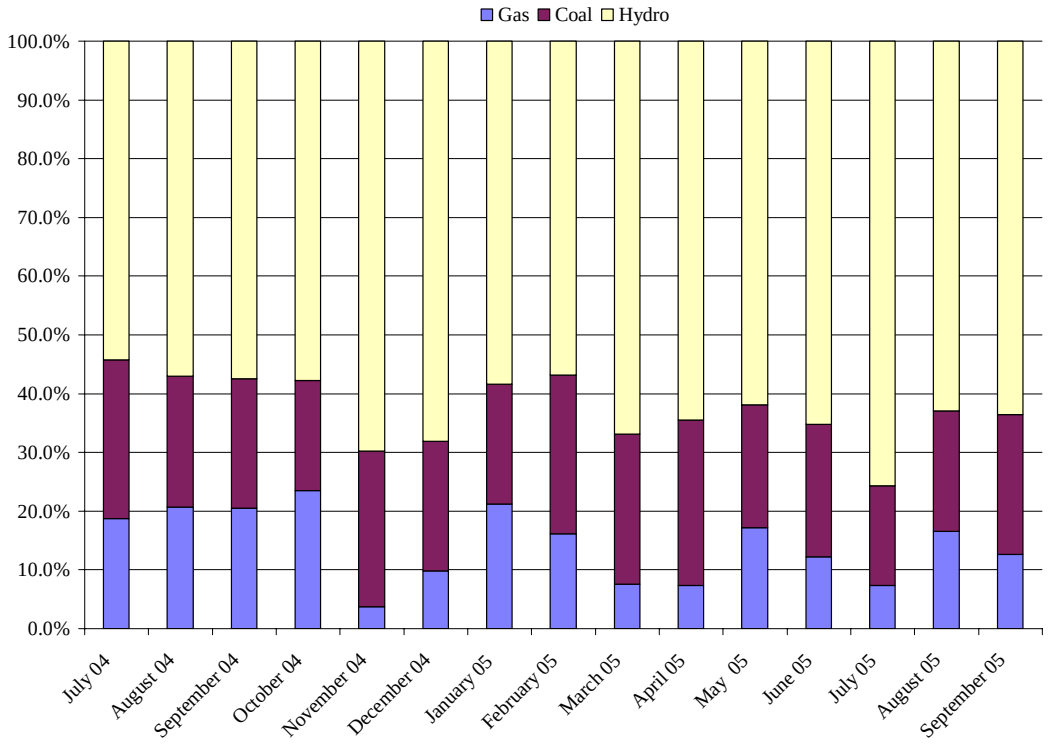


Figure 25 - Spinning Reserve Market Share by Fuel Type

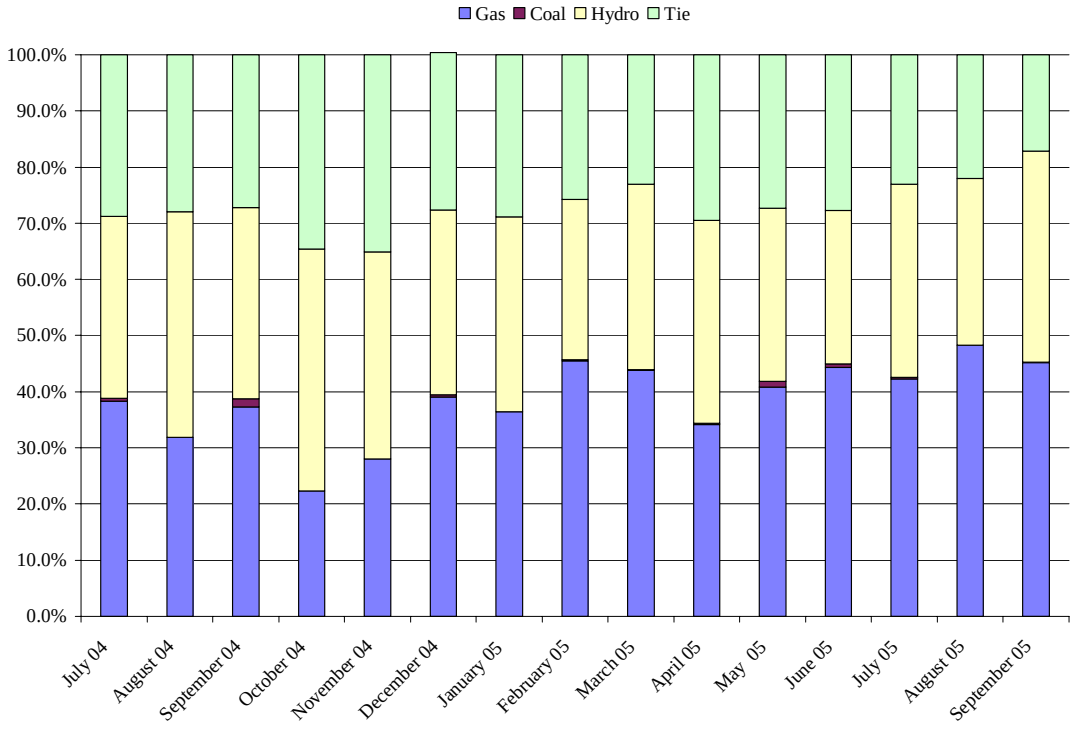
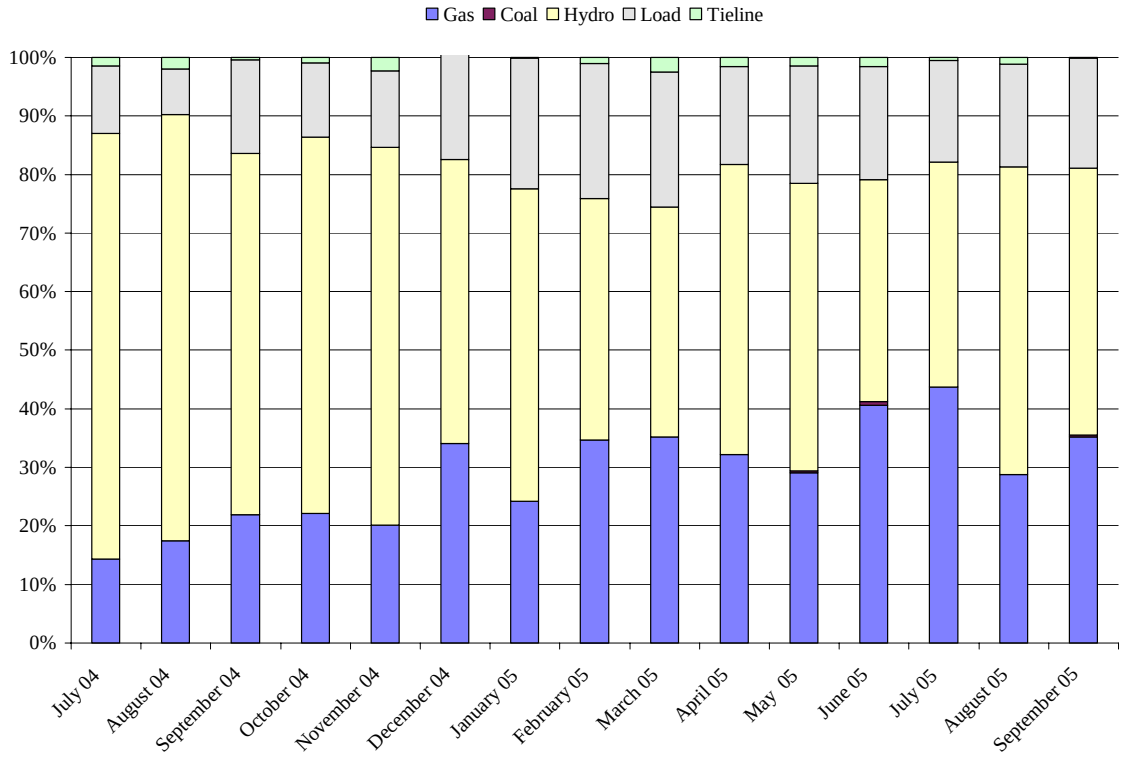


Figure 26 - Supplemental Reserve by Fuel Type



1.9 Forward Markets

The MSA's assessment of the impact of TPG/IDP indicated over an 18-month study period that less than 5 percent of Participant's forward energy transactions flowed through exchanges while the bulk of these volumes transacted through a broker and through direct bi-lateral deals. As such, exchange-traded volumes on their own, will no longer be reported in the MSA quarterly reports. The MSA hopes to gain greater visibility into the primary channels of forward energy transactions in order to provide greater transparency to the market in this area.

1.10 Outages and Derates

The MSA monitors the frequency and duration of the outages and derates of generating units in Alberta. Of particular interest are the coal fired thermal generation units that are operated under the terms and conditions of the Power Purchase Arrangements (PPAs). Outages at these PPA plants tend to have a large impact on Pool price as they represent a major contingent of total installed generating capacity in Alberta.

When these base load PPA units are derated or come offline for mechanical reasons, a higher cost peaking unit is often dispatched to replace the base load energy that is no longer available to meet system demand. When the amount of outage exceeds a PPA unit's historical average, the MSA seeks to understand the cause of the variation and may request additional data from the generation owner.

Figure 26 illustrates the total outage levels at the coal fired generation facilities and is separated by PPA owner. This graph indicates the total outage levels for the past five quarters and provides a context for the outage behavior in the most recent quarter. Owner B experienced much higher outage levels in Q2 in comparison to Q3 and in relation to the other quarters displayed on the graph. Owner C experienced significant outage levels in Q3/05 when compared to the previous quarter yet when considering the same quarter last year the outage levels appear relatively normal.

It is typical to see some planned outages in the second and third quarters of the year as this time period is traditionally a shoulder season for demand avoiding the cold weather influenced peak demand. It should be noted that some variation is expected on a year over year basis due to the nature of the multi-year planned outage schedules. With this in mind it could not be considered overly unusual for varied levels of outage to be experienced year over year. The MSA will continue to monitor outage of specific owners to ensure they are reasonable and within tolerances given the age and past performance of the generation units.

Figure 27 - Quarterly Outage Rates by Owner

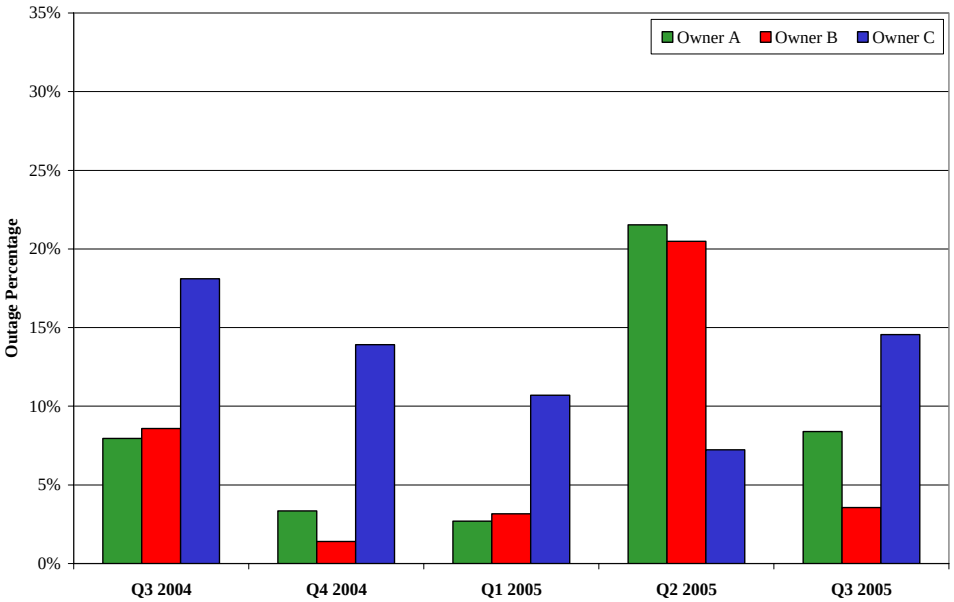


Table 3 reports the unplanned outages on a quarterly basis for 2005 and also provides a look at the previous annual statistics for unplanned outages as a point of reference. Q3/05 unplanned outages are more or less in line with previous years.

Table 3 - Percentage of Unplanned Outages For PPA Coal Units

	Q3/05	Q2/05	Q1/05	2004	2003	2002	2001
Owner-A	**4.0%**	**7.9%**	**2.6%**	6.1%	4.9%	4.2%	3.2%
Owner-B	**2.3%**	**3.6%**	**3.1%**	1.5%	1.5%	0.5%	1.2%
Owner-C	**3.3%**	**6.5%**	**8.9%**	6.3%	5.7%	10.8%	8.8%
PPA weighted average	**3.3%**	**6.4%**	**6.2%**	5.5%	4.9%	7.7%	6.3%

Note:
1) PPA units include: Genesee 1 & 2, Battle River 3, 4, 5, Sheerness 1 & 2, Sundance units 1 through 6, Keephills 1&2.
2) Outages rates are based on maximum continuous rating (MCR), not gross unit capacity.

Each PPA document specifies the target availabilities for each of the PPA units and these targets are determined with information based on historical performance plus other factors such as the unit age and design. By owner, **Table 4** reports the MW weighted average target availability for each coal fired portfolio and the actual availability achieved during 2003 and 2004 along with the present quarter, Q3 2005. The PPA owners normally achieve higher actual availability that their target availability. In Q3, Owner A and B were above their target availability while Owner C dipped below. This is the opposite of what was observed in Q2 and is not of great concern to the MSA as the target availability is an annual percentage and all Owners are still able to meet this availability target for 2005 with the reliable operational performance for the balance of the year.

Table 4 - MW Weighted Portfolio Target Availability (%) vs Actual Availability (%)

	Target Availability 2003	Actual Availability 2003	Target Availability 2004	Actual Availability 2004	Target Availability 2005	Actual Availability Q3 2005
Owner-A	87%	92%	87%	88%	87%	92%
Owner-B	90%	94%	90%	97%	89%	96%
Owner-C	85%	88%	87%	89%	87%	85%
PPA weighted Average	87%	90%	87%	90%	87%	89%

2 REVIEW OF THE RETAIL MARKET

2.1 Code of Conduct

Compliance Plans

Compliance plans are required from owners of electric distribution systems and their affiliated retailers; the plans set out the systems, policies and mechanisms to be used to ensure compliance with the electricity *Code of Conduct Regulation* (Code). Compliance plans must be approved by the MSA before they are effective, and before the affiliated retailer begins to provide retail electricity services.

The practice to date has been for each owner and each affiliated retailer to establish and adopt a distinct compliance plan. However, based upon discussions with various stakeholders, the MSA agreed in May, 2005 that a unified plan approach would also be acceptable – in other words, that a common plan could be developed, and adopted by all relevant parties (owner and affiliated retailer(s)) within an organization.

Various parties have now begun working along the unified plan approach, upon the view that it will add efficiency to their compliance structures and make it simpler to train their personnel. It is anticipated that this work will reduce the overall number of compliance plans by a large percentage.

Another significant change to compliance plan requirements was brought about specifically to facilitate efforts by Rural Electrification Associations (REAs) seeking to carry out retailer functions for their members.

Under the *Electric Utilities Act*, it is generally stipulated that the functions of owners of electric distribution systems and the functions of retailers must be done separately. This functional separation has meant that the owner functions are handled by a different legal entity than the retailer functions. Based upon feedback given by the REAs, the MSA and stakeholders, in June 2005 the Alberta Department of Energy enacted certain regulatory amendments to allow an REA an additional structural option.

Consistent with other enactments governing retailers, an REA is now able to carry out retailer functions for its members without setting up a distinct legal entity separate from the owner entity. Certain REAs have been availing themselves of this new option, allowed under the *Roles, Relationships and Responsibilities Regulation, 2003 Amendment Regulation.*

All of the foregoing developments serve to increase regulatory efficiency and to reduce the regulatory burden faced by market participants. Those gains should lead to reduced costs for all parties, including relevant customers.

Code of Conduct Audits 2005

The Code contemplates that the owners of electric distribution systems and their affiliated retailers will undergo a compliance audit on an annual basis, within the oversight of the MSA. The MSA also has the power to obtain information and conduct testing pursuant to its overall surveillance and investigation mandate under the *Electric Utilities Act*.

As previously indicated, the MSA elected to test Code compliance through one independent audit firm retained by the MSA (Grant Thornton LLP), utilizing one common testing plan. The period tested was July 1, 2004 through June 30, 2005, inclusive, with an additional stub period for certain parties due to their operational status in May and June, 2004.

A total of 13 parties were subject to the testing, including the Direct Energy, ENMAX, EPCOR and Fortis organizations.

Grant Thornton carried out random call centre testing in June, 2005, and the balance of the testing plan was carried out between August and September. The MSA anticipates that the results of the testing will be made public in late October and early November, via posting on the MSA website.

Access to Customer Information

As previously reported, the MSA has been working with representatives of the Alberta Department of Energy, the Alberta Energy & Utilities Board (EUB) and industry stakeholders around ways to make access to customer information as practical and fair as possible. The main initiative to date pertains to simplifying information access between the owners of electric distribution systems and retailers.

The initiative regained momentum after a summer recess, and (insofar as design and initial implementation) seems to be aiming for conclusion by December, 2005.

Related New Policy Initiatives

In June 2005, the Alberta Department of Energy issued its overall policy document pertaining to the wholesale and retail electricity markets, entitled *Alberta's Electricity Policy Framework: Competitive – Reliable - Sustainable*. Included in that document were discussions around the mandate of the MSA and the other implementing agencies, as well as the EUB.

In conjunction with the policy document and other matters, various initiatives are now underway. One of those may directly affect the roles of the MSA and the EUB, and the sharing of responsibilities, insofar as the *Code of Conduct Regulation(s)* for the electricity and natural gas markets. The MSA may take on some additional responsibilities relating to the gas Code, consistent with amended responsibilities under the electricity Code.

It is anticipated that those changes will be discussed and finalized during the balance of 2005 and early 2006.

2.2 Retail Market Metrics

The MSA continues to track performance in the retail market across four general customer groups

The four primary customer categories that are reviewed include: the Residential RRT eligible, the Farm RRT eligible, the small commercial RRT eligible and finally the non RRT eligible category which are those that historically consumer greater than 250 MWh annually.

Figure 28 - Current Market Share of Retailers by Load (Q3/05)

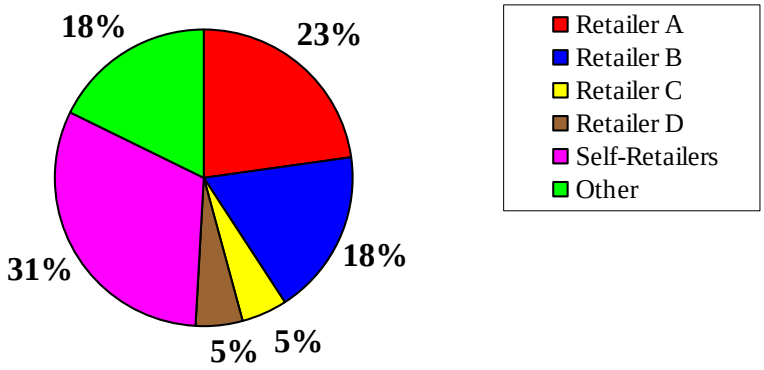


Figure 28 shows the overall provincial market share of retailers for Q3/05, of retailers holding 5% or greater market share. The largest four retailers serviced over 51% of the total provincial load during Q3/05, which was little changed relative to Q2/05. Self-retailers, usually large industrial organizations, made up another 31%, while assorted smaller retailers are competing for the remaining 18% of the market. The large amount of load in the self-retail category reflects the ability of larger industrial firms to manage their energy options in house as opposed to relying on default supply options provided by the incumbent retailers.

Figure 29 below, shows retailer market share by customer class for Q3/05.

Market shares of the three dominant retailers in the Residential – RRT Eligible class have not changed substantially over the last two years.

In the Farm – RRT Eligible category, market shares have changed little in the past quarter but may shift more as new retailing entities operate in this market. For Q3/05, market shares of the two main retailers in the Commercial/Industrial – RRT Eligible category have remained steady. The cumulative market share of the three largest retailers adds up to 72% of the total load. For some customers in this category, self-retailing may be appealing in order to have greater control over their energy costs.

Figure 29 - Q3/05 Market Share of Retailers by Customer Class

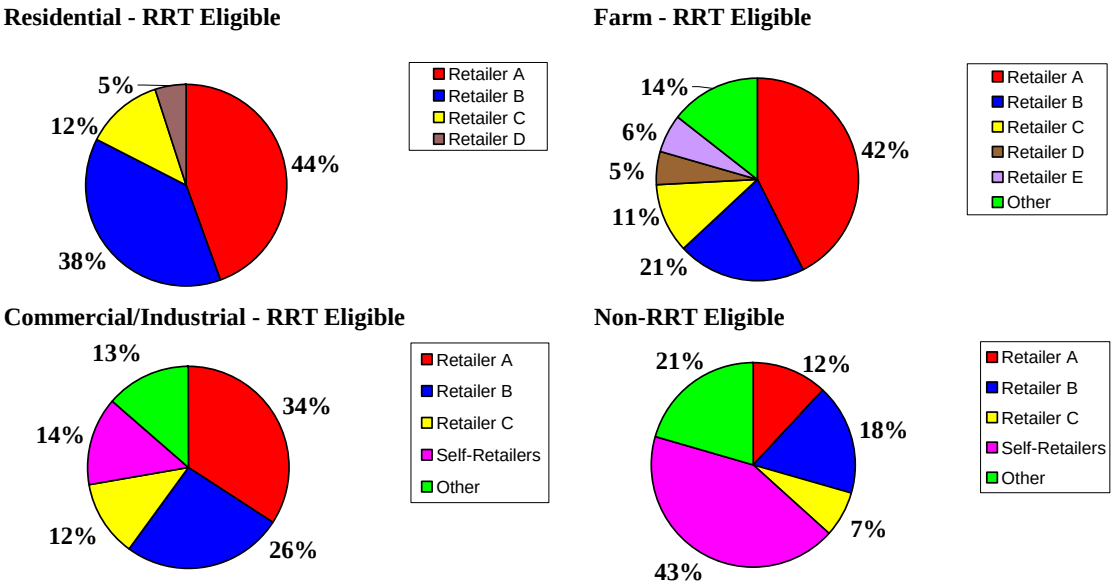
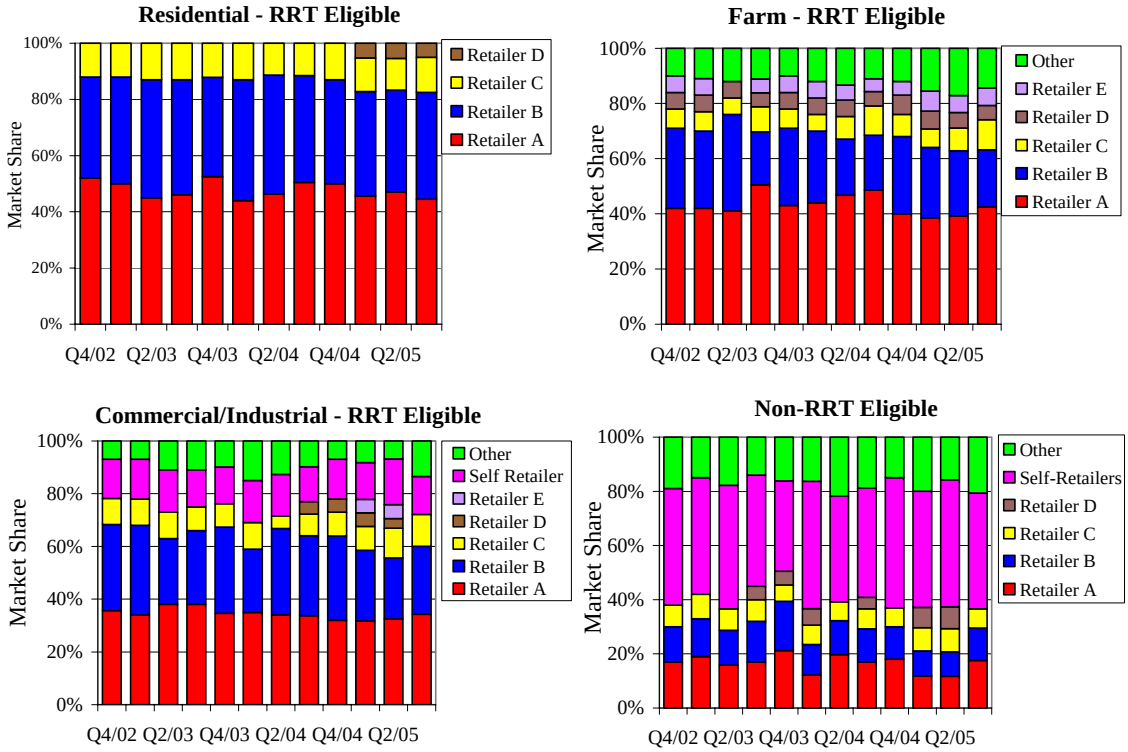


Figure 30 is another way to look at the shift in market share in the four categories. The picture is useful in providing an overall view of the change in market share over the past 12 quarters and demonstrates the changes experienced in the retail market. It is worthwhile to note the entry and exit of retailers in the graphs which clearly shows the ongoing battle for market share in certain parts of our retail market.

Figure 30 - Change in Categories (Q3/05)



The overall progression of customer sites off of the RRT to competitive electricity contracts has held relatively steady over last several quarters but has modestly increased over the past few quarters. As of the end of June, 2005, 9.0% of all RRT eligible customer sites have chosen to enter into a competitive contract with a retailer.

Figure 31 - Progression of RRT Eligible Sites Switching Off RRT

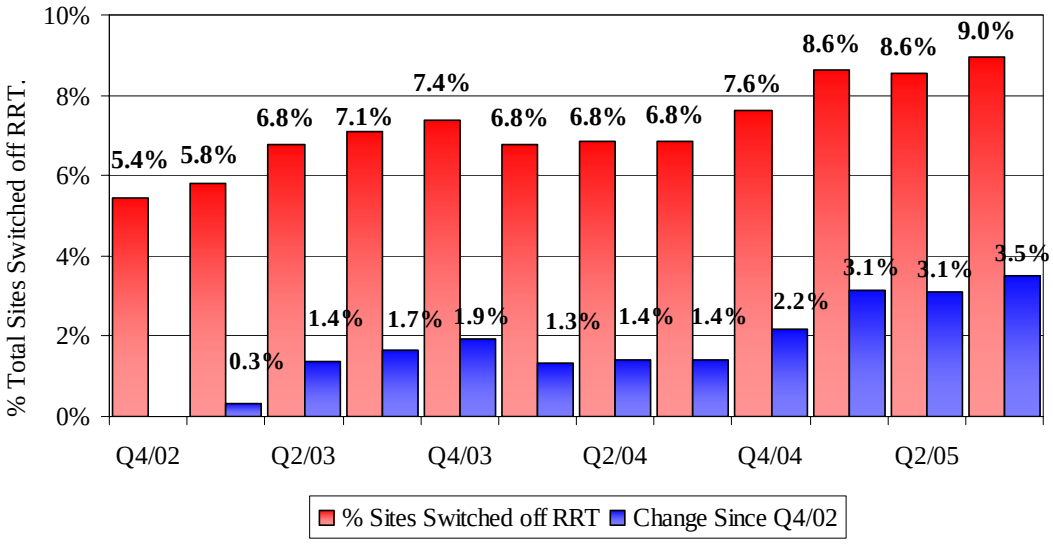


Figure 32 - Progression of RRT Eligible Sites Switching Off RRT by Customer Type

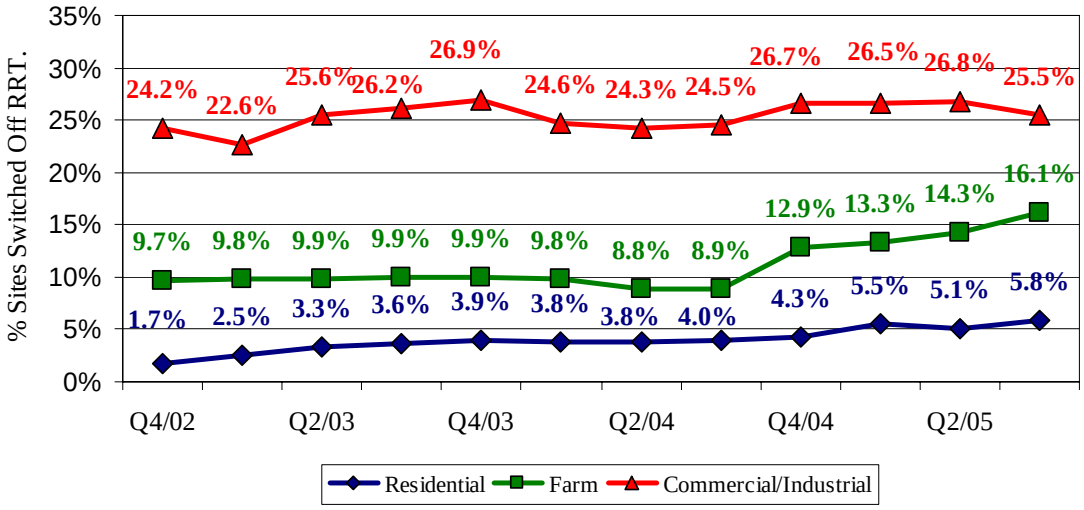


Figure 32 shows the progression of RRT eligible sites switching off RRT by customer type. Switching results are encouraging in all categories as no category has given up any real ground.

Switching rates in the Commercial/Industrial – RRT eligible category experienced a slight decrease of about 1.3% and reached the level of 25.5%.

A larger change was seen in the Farm category as it increased a full 2 percent to 16.1%. This is the smallest category in terms of total load although REAs becoming more involved in retailing appear to be having a noticeable affect on market shares in the Farm - RRT eligible category.

The increase in switching indicates retailers are able to find customers in this category who find competitive contracts an attractive option to the regulated rate.

2.3 Settlement System Code Monitoring

The MSA maintains an interest in a wide variety of issues relating to Settlement System Code (SSC) and monitors how settlement is working in Alberta. As detailed monitoring of settlement and compliance to the SSC is the role of the AESO, the MSA's observations will tend to be more directional in nature, identifying trends in the settlement process.

Complaints

The SSC uses PFECs, PFAMs and Notices of Dispute as tools to resolve issues arising from the settlement process and calculations. PFECs occur prior to final settlement while PFAMs occur after or post-final settlement. Statistics regarding the number of PFEC/PFAMs submitted, accepted and rejected were collected from the four load settlement agents (LSAs) in the

province. **Table 5** summarizes PFEC and PFAM tracking for Q3/05 relative to last quarter.

Table 5 - PFEC and PFAM Tracking

Claim Type	Carry-Over	Submitted	Accepted	Rejected	Unresolved	Net kWh Adjustment
PFEC						
Q3/05	191	531	506	21	195	NA
Q2/05	67	317	187	6	191	NA
PFAM						
Q3/05	93	185	171	59	48	3,999,846
Q2/05	56	318	260	21	93	(12,246,637)

The table shows that the number of PFECs submitted have increased considerably from last quarter with a consistently large number left unresolved, a quantity similar to Q2. The majority of the 195 unresolved PFECs are in one particular LSA. These processing statistics will continue to be closely monitored by the MSA to ensure the PFECs are dealt with expeditiously.

The overall volume of PFAMs submitted in Q3/05 has tapered off from the larger quantities that were observed in Q2/05. The number of incoming PFAMs is an indicator that the LSAs are getting challenges from retailer regarding the final settlement output. The significant quantity of accepted PFAMs suggests that many of the retailer issues are due to an error with the LSA settlement process which the LSA has resolved.

Having 48 unresolved PFAMs is not an unusually high number and is an improvement to the numbers in Q2/05 but the MSA will keep a close watch to ensure these do get resolved in a timely manner and do not persist.

UFE

The MSA has collected data regarding UFE in the form of UFE Reasonable Exception Reports for each of the 10 settlement zones in the province. These public reports are posted on the LSAs websites and updated each time UFE in any given zone exceeds either general tolerances or tolerances set by the LSA. **Table 6** summarizes the UFE Reasonable Exception Reports (UFE reports) filed over the last two quarters.

Table 6 - Summary of UFE Reasonable Exception Reporting

Quarter	Outstanding	New	Resolved	Unresolved
Q3/05	32	85	24	93
Q2/05	19	18	5	32

By the conclusion of Q3/05 the number of unresolved UFE exception reports numbered 93 with many of these having been carried over from the second quarter. This indicates that exceeded UFE issues have been growing at a faster rate than LSA's are able to deal with in a timely manner.

3 MARKET ISSUES

3.1 Undesirable Conduct & Market Power

In July the MSA published a paper entitled Undesirable Conduct and Market Power. This paper sought to clarify for participants, the MSA's view on what constitutes a fair, efficient and openly competitive market. This view is important for participants since the MSA's mandate includes the responsibility for ensuring that the conduct of participants supports the fair, efficient and openly competitive operation of the market. The MSA has committed to help clarify its views on 'fair, efficient and openly competitive' on an ongoing basis.

The July paper also introduced the concept of a 'conduct compliance plan'. In light of the removal of government mandated holding restrictions, the MSA is of the opinion that an additional tool is required. We believe that the 'conduct compliance plan' approach provides a flexible and focused option.

3.2 TPG/IDP Assessment

At the outset of implementation of the TPG (Trading Practices Guideline), the MSA committed to review the impact of this initiative and the accompanying IDP (Information Disclosure Procedure) one year following their implementation. During Q3/05 the MSA conducted this review and published a report on its findings. The report did not find evidence to support the belief held by some participants that forward market liquidity would be adversely affected by the TPG.

In its monitoring and enforcement of the TPG/IDP thus far, the MSA conducted preliminary investigations into four breaches of the guidelines involving three participants. The MSA exercised forbearance in these cases as Participants were moving up the learning curve with respect to outage disclosure. In return, the MSA received assurances that those participants would put into place business practices which would prevent TPG/IDP violations in the future.

While compliance with the TPG/IDP was found to be generally good, one area of contention has been between PPA buyers and owners in respect of when it is made known to the owner that the buyer has declared an outage to the AESO. A mechanism under development in the TDE procedure will automatically inform PPA owners when that disclosure has taken place.

The MSA has continued to work on improving the IDP mechanism. We believe the TDE process is an improvement over outage reporting since it centralizes reporting through the AESO's ETS system and provides real time updates as participants update their TDE submissions. Along with system improvements, the MSA has noted improvements over the last year in terms of the accuracy and timelines of outage reporting by participants.

3.3 BC Tie line Economics update

At the end of Q3/05, the MSA followed up its January paper which reviewed uneconomic import and export activity on the BC tie line. This follow up work focused on import behaviour on the BC intertie as uneconomic imports have continued to be a prominent market issue in 2005. Uneconomic activity on the interconnections for portfolio management reasons is, in the opinion of the MSA, harmful to market price fidelity, and hence the fair, efficient, and openly competitive operation of the market.

The MSA's follow up report indicated that in the study period of January 1 – September 10 2005, there continued to be periods of sustained uneconomic import behaviour. While overall this may have appeared as a repetitive occurrence in 2005, in fact the actions of three separate participants in three different periods drove the overall effect. The MSA took steps in each of those cases as they were observed, to make the party in question aware that their behaviour was offside with MSA guidance. Further, the MSA published a notice in late July to the market at large, outlining the additional guidance that had been provided to the parties of concern in earlier 2005. Subsequent to being put on notice for their undesirable import conduct, the respective parties have shown a marked improvement in their import conduct. Intertie conduct will continue to be closely monitored by the MSA due to its effect on Pool price fidelity and further updates of the MSA's monitoring efforts are expected to be included in year-end reporting.

4 OTHER MSA ACTIVITIES

4.1 EISG Activities

The Energy Inter-market Surveillance Group is a primarily North American association of electricity market monitoring agencies that also has international membership from Australia, New Zealand, Singapore, and Korea. The group provides a forum for sharing approaches and experience in dealing with various market monitoring issues. The MSA presented at the fall meeting which was hosted by the Ontario market monitors. The MSA will be hosting the next meeting of the group which is scheduled for spring 2006.

4.2 Changes to MSA Team

Senior Analyst Chris Joy recently left the MSA to pursue other opportunities. The MSA thanks Chris for his substantial contributions to the group over his tenure at the MSA and wishes him success in the future.

Etienne Snyman joined the MSA during Q3/05 in the position of Market Analyst. Etienne is a recent dual graduate of the University of Calgary undergraduate Economics and Computer Science programs. The MSA welcomes Etienne on board.