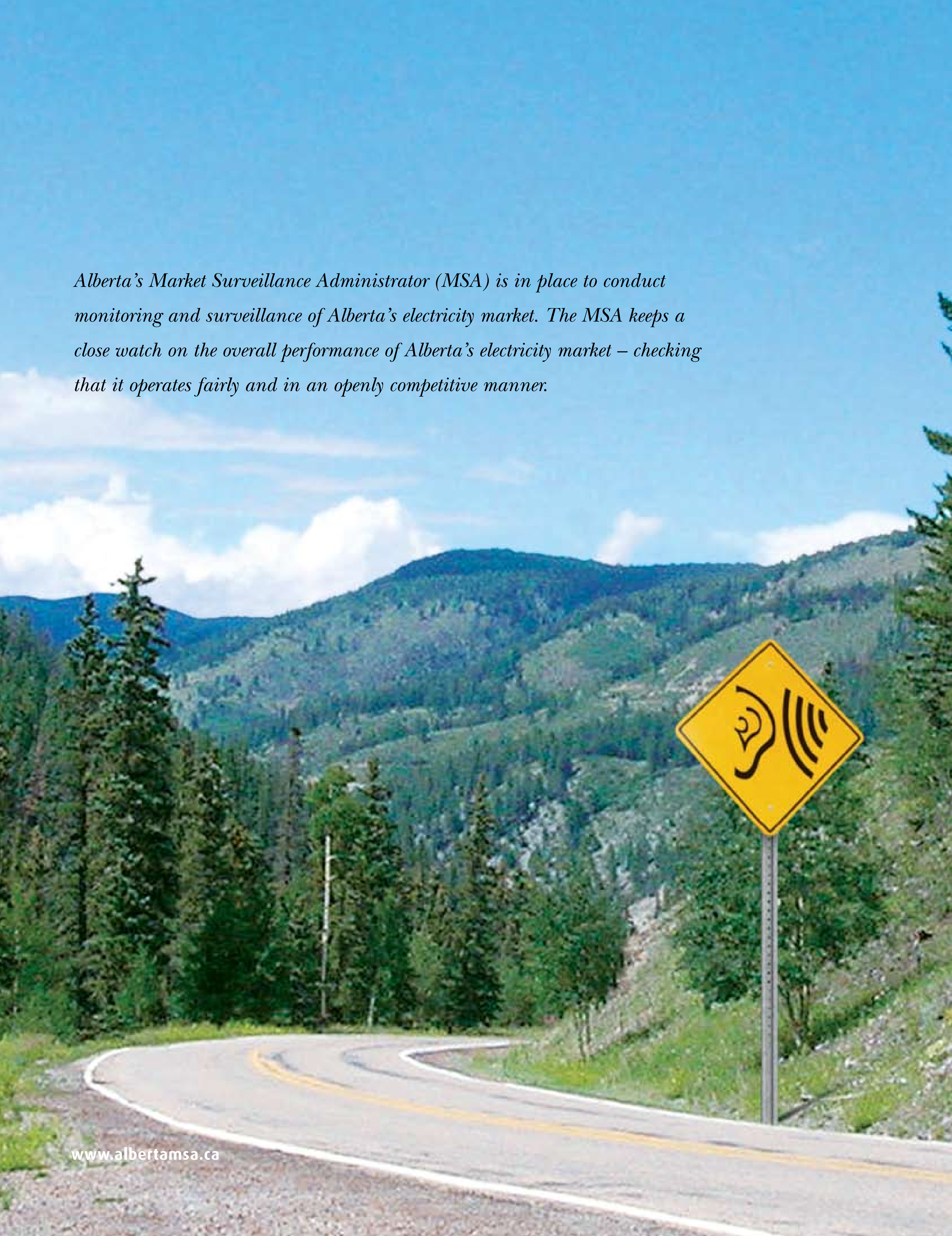
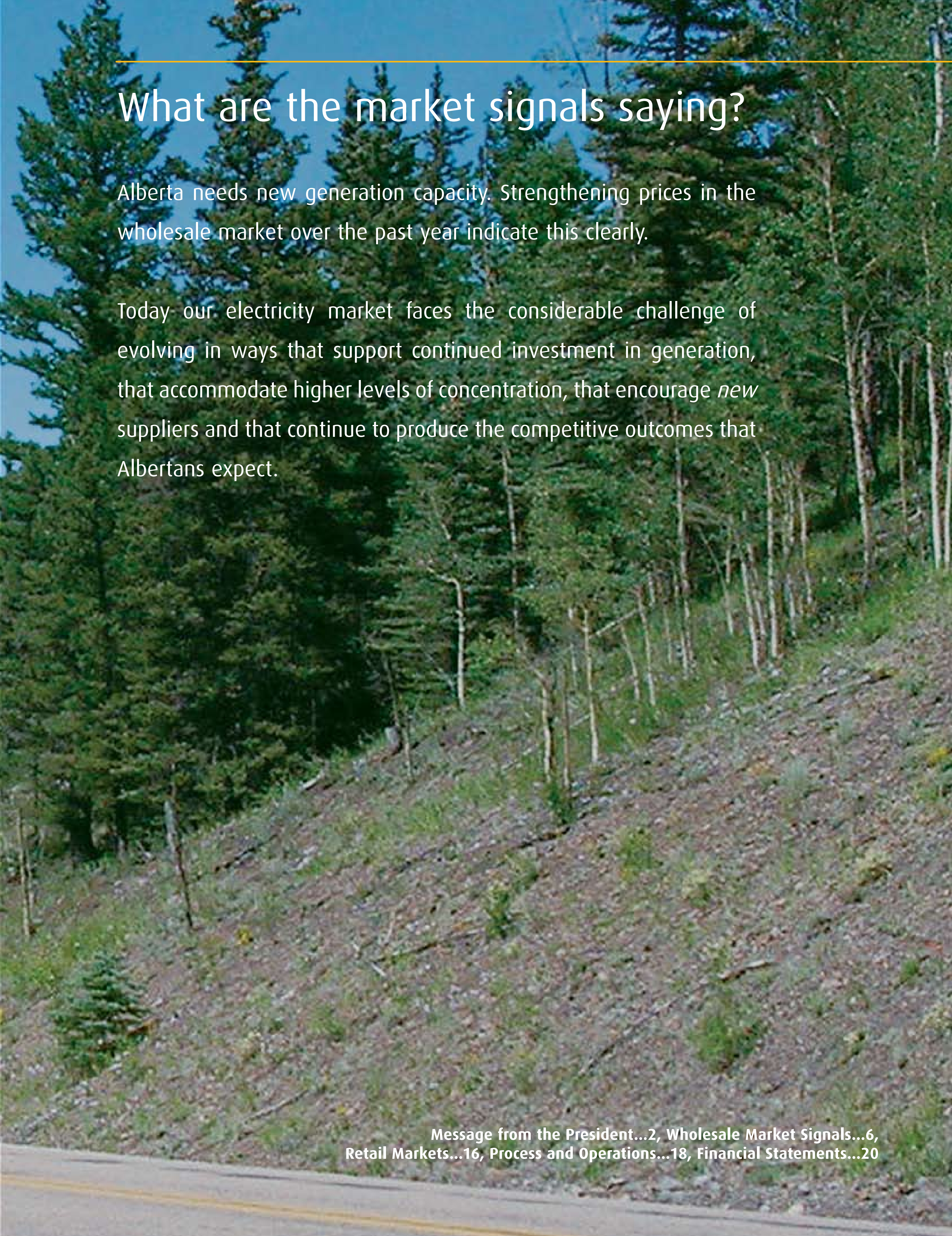
2006 ANNUAL REPORT

MARKET SURVEILLANCE
ADMINISTRATOR

Alberta's Market Surveillance Administrator (MSA) is in place to conduct monitoring and surveillance of Alberta's electricity market. The MSA keeps a close watch on the overall performance of Alberta's electricity market – checking that it operates fairly and in an openly competitive manner.





What are the market signals saying?

Alberta needs new generation capacity. Strengthening prices in the wholesale market over the past year indicate this clearly.

Today our electricity market faces the considerable challenge of evolving in ways that support continued investment in generation, that accommodate higher levels of concentration, that encourage *new* suppliers and that continue to produce the competitive outcomes that Albertans expect.

President's Letter 2006

SIGNALS

Markets depend on signals. Since the first steps in restructuring Alberta's electricity market in 1996, our market has produced an hourly price signal. In January 2001 the modern era of our market began, with private, for-profit investors paying more than $2.0 billion for the privilege of controlling the legacy generation assets built by the previously regulated utilities.

Over the ensuing years the province has moved from capacity deficit to surfeit and now back toward deficit, a sequence that has been reflected in the fluxing of the price signal and subsequently rational responses by market participants. Today, as a booming economy ushers in a new period of inevitably tighter capacity, several critical questions confront us:

- Will Albertans understand the need for scarcity pricing and be patient enough to wait for it to do its work?
- In a market with growing concentration, how do we ensure that appropriate and necessary scarcity pricing does not turn into monopoly rent?
- How will investors respond to the current price signals?

At the heart of these questions are the very premises of competitive markets and the role of market surveillance.

The first half of 2006 saw average prices of $55.23 per MWh; however, the summer and fall produced several periods of record high daily average pool prices which pushed the annual average price to $80.79 per MWh. Capacity was indeed scarce at times as a result of a combination of planned and unplanned outages. In the MSA's view, prices were not out of line with what might be expected during a period of tight supply. But the line between necessary and appropriate scarcity rent and market-power-derived monopoly rent is a fine one.

It is important to understand that high prices from time to time during periods of genuine scarcity are normal and a necessary feature of our market design. Higher prices ration demand and help to ensure reliability. They pay for the many hours that are well below the full cost of production and they signal the need for and willingness to pay for new generation. When generation supply is scarce as it will likely be more often over the next few years, the MSA has a challenging job. On one hand it is imperative that we stay out of the way of the price signal doing what it properly needs to do: signal and pay for scarcity as our long-term adequacy depends on the integrity of the "build signal". On the other hand, we must be watchful for wealth transfers that are the product of anti-competitive behaviour. Such behaviour becomes increasingly possible when genuine scarcity coincides with growing supply side concentration.

Martin Merritt, President

CONCENTRATION

One of the success stories of the first ten years of restructuring has been the market's ability to attract new generation, most of it built by already large incumbents. Market concentration has been growing steadily as incumbents build and as they buy up the legacy PPAs either at auction from the Balancing Pool or on the secondary market.

There are presently no limits on participant size in our market and our Pool rules are focused primarily on operational rather than competitive requirements. We have come to the point where competitiveness requires more clear guidance on permissible conduct and/or size. Resolution of this uncertainty will be welcomed by current participants, by prospective investors and by the MSA alike.

We reported in the third quarter that the trailing twelve month price signal appeared to be indicating viable economics for at least peaking generation, following several years in which the signal to investors had clearly and appropriately been "don't build". Fourth-quarter power prices have been both higher and more volatile, while fuel costs have continued to be soft, improving the profitability of all types of generation but peaking units in particular. The assertion that the economic signal is there was endorsed by Epcor and TransAlta's recent announcement that they will be commencing construction on the Keephills 3 generating station. While the announcement is a welcome and positive sign, we will need approximately three more like it to meet load growth between now and its anticipated commissioning date.

Many factors bear on the decision to invest shareholder capital in new facilities. Notwithstanding the clarity of the price signal, other signals may be confounding. These confounding signals include transmission bottlenecks, regulatory uncertainty and a forward market whose prices may not yet support new generation. In addition, the growing prevalence of joint-venture projects, which allow the sharing of risk and financing, may reduce the inclination of an individual merchant plant developer to jump in first as a matter of competitive strategy.

If our market design is to ensure long-term adequacy of supply for Albertans, we must resolve the issues that confound the investment signal. Simultaneously enhancing the competitiveness of an increasingly concentrated market will be particularly challenging for policy-makers, participants and the MSA.

We have come to the point where competitiveness requires more clear guidance on permissible conduct and/or size. Resolution of this uncertainty will be welcomed by current participants, by prospective investors and by the MSA alike.

Procedure

In 2005, a market participant filed a complaint under s.73 of the Electric Utilities Act with the Chairman of the EUB. The complaint related to a Preliminary Assessment Report which had been published by the MSA. The complainant asserted that by publishing certain material the MSA exceeded its statutory authority, violating its enabling statute, related regulations and its own guidelines. The complainant requested certain remedies from the Chairman that would have overridden the decisions of the MSA.

In a decision released on September 19, 2006, the Chair found that s.73 did not grant the jurisdiction to amend, modify, revoke or overturn policy direction, guidelines, views or decisions of the MSA and therefore refused the substantive portion of the complaint. The Chair did request amendments to the MSA's Investigation Procedures with respect to involvement of the complainant in the finalization of a Preliminary Assessment report. The MSA was pleased with the decision overall and has made the appropriate amendments to its procedures which are available on our website.

The MSA advocates for increases in the transparency of the market's operation and of the surveillance function. The agency is keenly aware of its obligations under the Act, including those concerning commercial sensitivity and jurisdiction.

In August the MSA completed a negotiated settlement with Enmax over an issue involving trading in the forward energy market on non-public information. The circumstances and agreed-to sanctions were documented and published at the time on the MSA's website. Again, some supply side participants took the view and raised complaints with the Alberta Government that the MSA had exceeded its mandate and authority in agreeing to sanctions with a participant.

The MSA was satisfied with the government's disposition of the complaint. They supported both our strategy to pursue a negotiated settlement and our jurisdiction to do so. The substance of these complaints and the remedies sought, highlight a practice which grew more prevalent during 2006 among the increasingly concentrated supply side of our market to reduce transparency and to frustrate the surveillance and prosecution functions.

The MSA advocates for increases in the transparency of the market's operation and of the surveillance function. The agency is keenly aware of its obligations under the Act, including those concerning commercial sensitivity and jurisdiction. However, procedural and jurisdictional frustration must not be permitted to erode the level of transparency, surveillance and enforcement that Albertans expect to ensure a market that remains fair, efficient and openly competitive.

2007 Outlook

Alberta needs new generation capacity. Our price signal has begun to move in the right direction for the right reasons. Increases in the frequency of capacity shortfall that induced price spikes of the type seen in July and October appear certain until additional capacity comes on line.

Supply side participants must be confident that the MSA understands the critical role that scarcity pricing plays in assuring long-term adequacy. At the same time, demand side participants must have confidence that the MSA will be vigilant for market power masquerading as scarcity if in the circumstance market competitiveness is not guaranteed by participant demographics, principles of conduct or prescriptive rule.

Experience over the past year suggests that the time has come for the MSA to re-examine its procedures. Where appropriate, and following consultation, the MSA may make amendments. The MSA will continue to assure participants' right to procedural fairness without impeding the surveillance function's ability to meet its broader obligations to Albertans as set out in the Electric Utilities Act.

Increases in the frequency of capacity shortfall that induced price spikes of the type seen in July and October appear certain until additional capacity comes on line.

Our next ten years can be as competitive and successful as our first ten. For that to happen, concentration must not be permitted to impair competition and the quest for market rules and oversight that foster competitive outcomes must not come at the expense of the investment signal. Section 6 of the Act places a positive obligation on market participants to support the fair, efficient and openly competitive operation of the market. Over the first half of 2007, a committee struck by the Department of Energy and engaging a broad cross-section of participants and the MSA, will attempt to develop more objective ways of testing participant behaviour against the standard required by the Act.

Success in improving clarity of conduct expectations should reduce regulatory uncertainty for participants, better focus the MSA's surveillance and provide improved ability to successfully prosecute behaviour that violates the Act. By addressing ourselves to these challenges in 2007 we can ensure that competition, not bureaucrats, will continue to be the primary regulator of Alberta's electricity market.

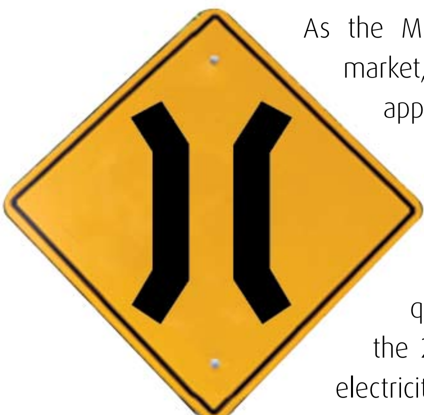
[Signed] "Martin Merritt"

Martin Merritt
March 12, 2007

Wholesale Market Signals

Scarcity Pricing

Stakeholders are confronted with numerous market signals, the most obvious of which is market price.

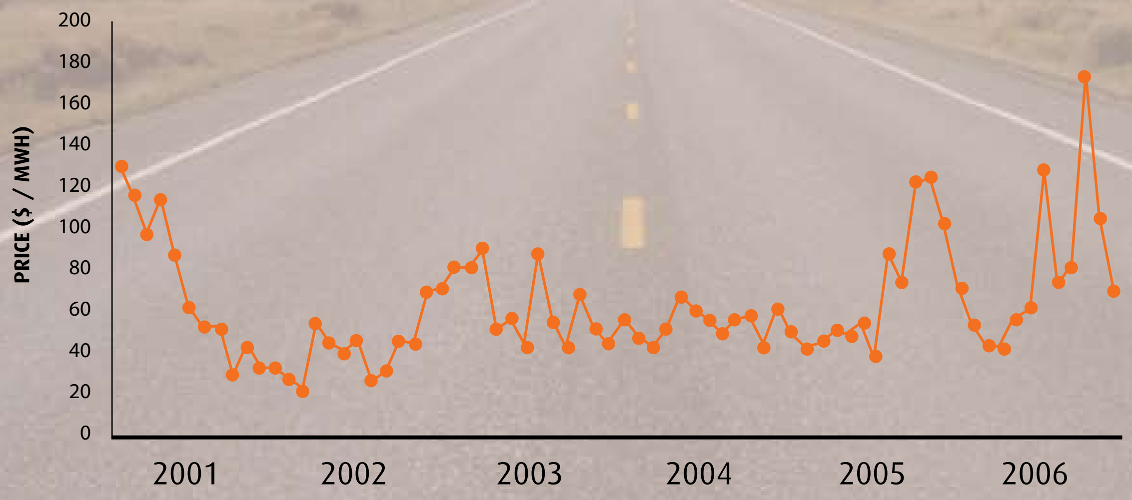


As the MSA postulated in earlier communications to the market, the low-water mark for the current investment cycle appeared to have been crossed in the latter half of 2005. While many indicators suggest that the market is again ready for investment, generators are looking for a robust "build" signal – a key element of which is scarcity pricing. The growing price volatility witnessed in the fourth quarter of 2005 reached new heights in 2006 as reflected in the 2006 price duration curve. The graph shows that wholesale electricity prices were above $200 more frequently while at the other end of the curve, very low prices were relatively rare during 2006.

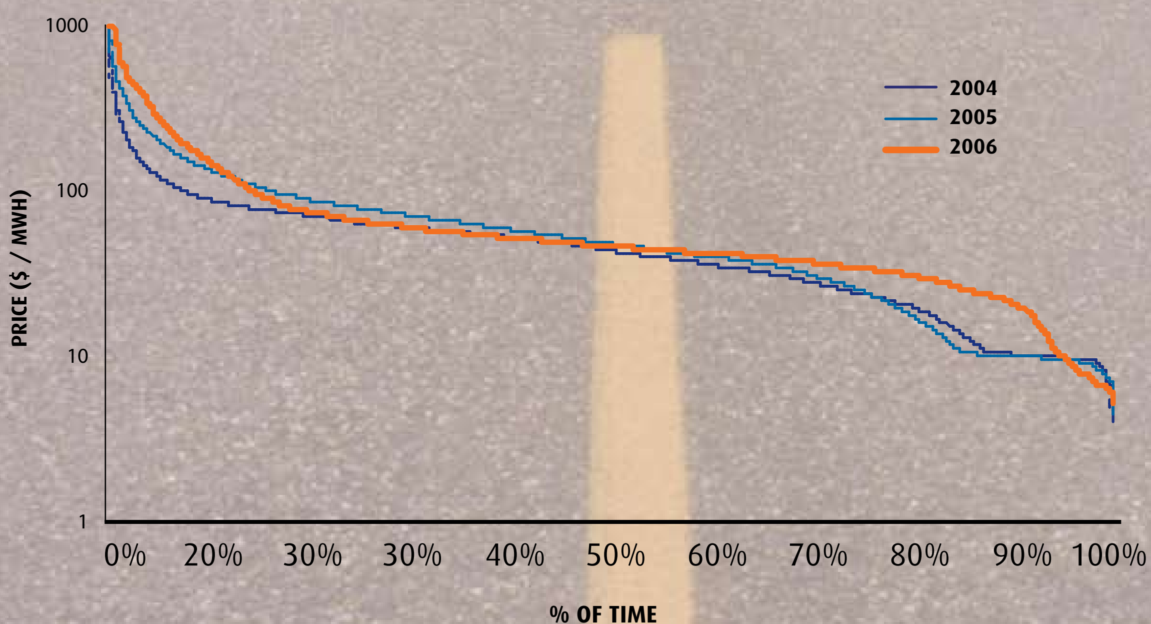
Pool prices through the first half of 2006 averaged a modest $55.23 per MWh; however, scarcity events contributed to an average price in the second half of the year of $106.35 per MWh. This equated to an annual average price of $80.79 per MWh.

The MSA published two event reports in 2006 which provided explanations of the market fundamentals that led to the very high prices at those times. These reports noted that periodic scarcity pricing is a normal and necessary market phenomenon that rations demand, ensures reliability, and signals the need for new generation. As the market's supply cushion becomes tighter, more incidents of scarcity pricing can be expected. Stakeholders can be assured, however, that the MSA will be vigilant in monitoring for exercises of market power under the guise of scarcity.

Monthly Average Pool Price (January 2001 – December 2006)



Price Duration Curves



Economics of Entry

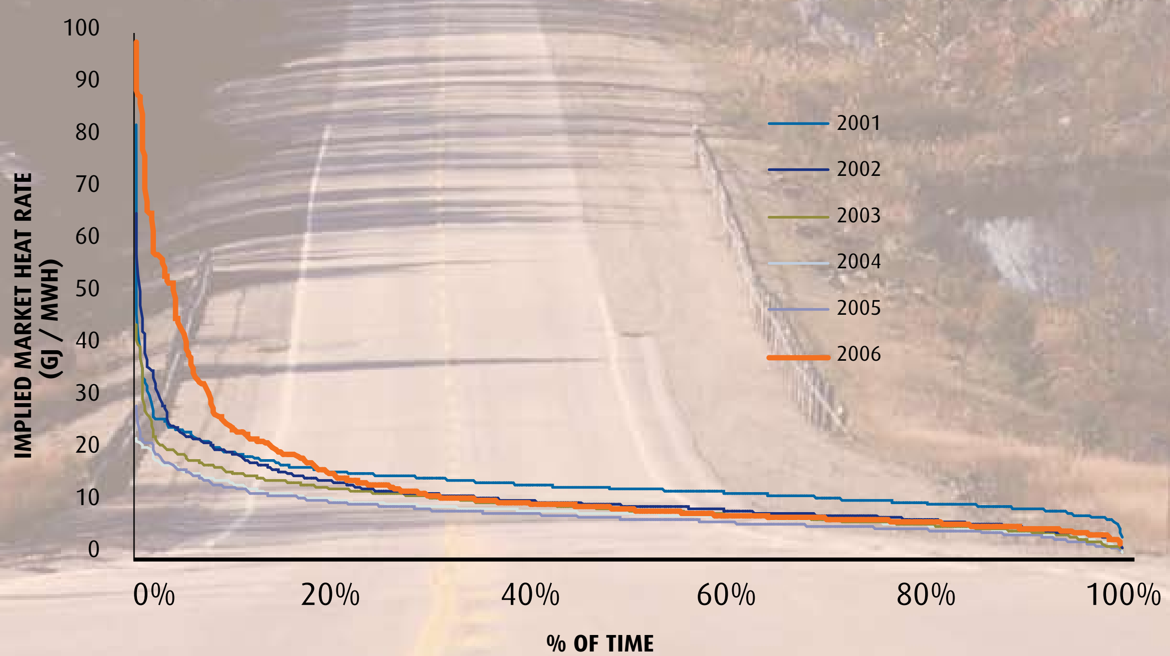
The MSA has historically performed a directional analysis of returns for new generation in its quarterly or annual reports. Our estimate of return on capital for a theoretical investment in new coal, gas peaking, and combined cycle generation indicated that for the second year in a row, coal generation appeared economic. Peaking gas generation and combined cycle also appeared to be economic on the basis of 2006 returns, but not in the prior two years. While these results indicated substantially better imputed returns in 2006, they are only directional in nature.

A duration curve of heat rates indicates that heat rates were above 20 GJ per MWh for 15.6 percent of the time during 2006 versus 9.6 percent of the time during the last two years. This translates to an additional 528 hours during 2006. A heat rate of 20 GJ per MWh has been observed to represent scarcity conditions in the market under which participants are not simply pricing off natural gas.

Comparing 2006 to the heat rate duration profile of 2001 – a year of similarity in terms of growing supply tightness, the much greater efficiency of the generator fleet is evident in the much lower heat rates over the broad part of the curve where scarcity conditions are not applicable. The persistently higher heat rates in the 2001 curve reflect the inefficiency of the units of the day, particularly Rossdale and Clover Bar, which were frequently market price setters. The retirement of Clover Bar, before what would have been the end of its life under regulation, provides evidence of competitive forces at work. The overall implied market heat rate in 2006 climbed to 13.9 GJ per MWh; however, softening gas prices late in the third quarter and fourth quarter of 2006 amplified this increase. This increase follows four consecutive year-over-year declines in the market heat rate.

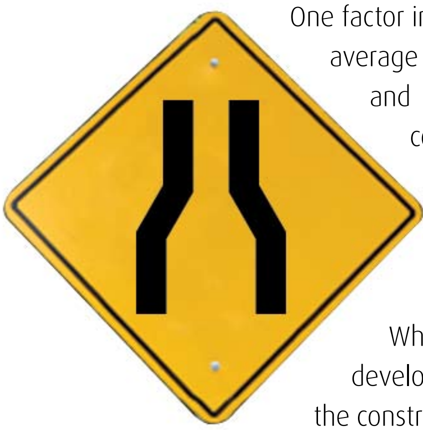
While the economics for new coal generation continue to look promising, the level of price volatility combined with softer gas prices in 2006 suggested that fast responding, efficient gas generation may once again be a viable choice for investors.

Heat-Rate Duration Curves



Coal Generation

About half of Alberta's generation fleet is coal-fired and thus has a low operating cost. As such, these units are usually base-loaded. Observation has shown that the level of availability of coal generators has a significant effect on market prices. An unexpected outage of one average-size coal unit, for example, results in a 325 MW loss to the system. With substantial coal generation offline or de-rated, higher cost generation is required to meet system load, resulting in higher market prices.

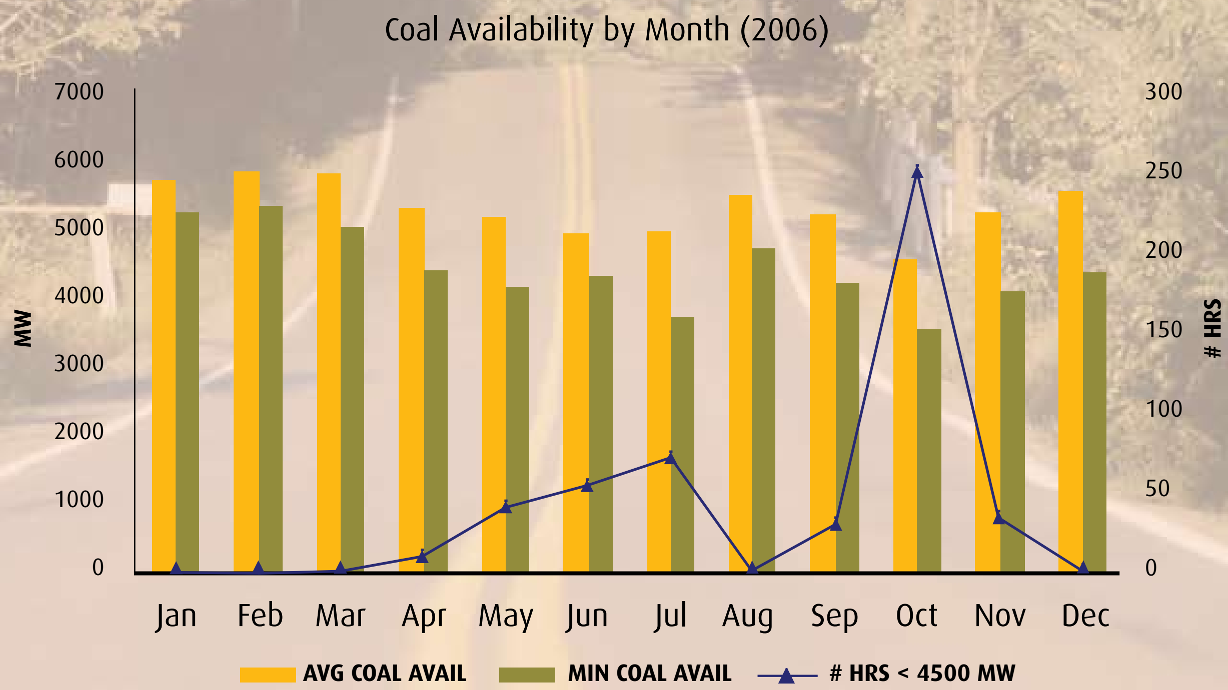


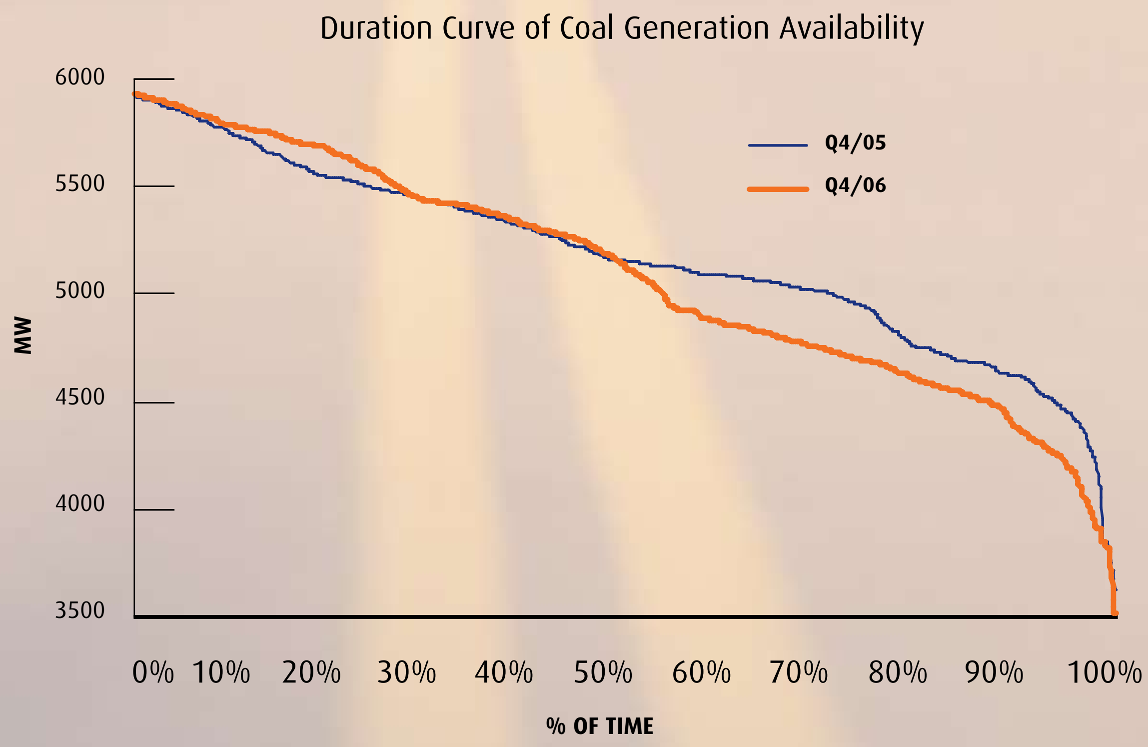
One factor in coal plant availability is the age of the coal fleet. As the average age of Alberta's coal fleet increases, more frequent outages and therefore declining reliability is to be expected. The last coal unit added to the system was Genesee 3 which entered service in late 2004 and was officially commissioned in early 2005. However the bulk of the fleet dates from the 1980's or earlier.

While certain market participants have announced intentions to develop new coal projects, to date only Keephills 3 has advanced to the construction phase with commissioning slated for 2011. In the interim, target availabilities for the legacy PPAs remain essentially flat.

In early 2006, coal plant availability was exceptionally good, averaging 5744 MW or 98 percent availability in the first quarter of 2006. Looking at fourth-quarter statistics for 2006 versus 2005, the coal availability duration curve for 2006 is significantly below the curve for 2005. October was the lowest month in 2006 with average coal availability of 4,544 MW or 78 percent, including a substantial 249 hours below 4,500 MW. In 2005, the lowest coal availability month was June with an average availability of 4,832 MW.

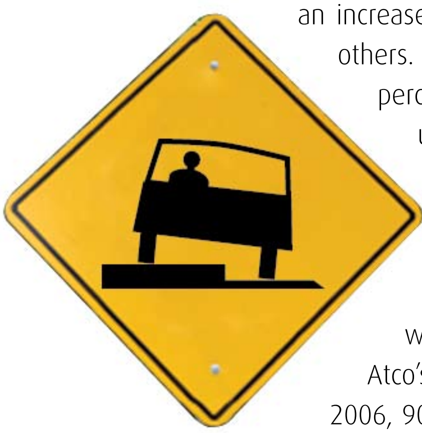
With no new coal generation until 2011, industry will need to manage outages in the intervening years so as not to aggravate scarcity. Going forward, the MSA will be monitoring events surrounding clustered outages.


Coal Availability by Month (2006)
MW
HRS
7000
6000
5000
4000
3000
2000
1000
0
300
250
200
150
100
50
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
AVG COAL AVAIL
MIN COAL AVAIL
HRS < 4500 MW


Duration Curve of Coal Generation Availability
MW
6000
5500
5000
4500
4000
3500
Q4/05
Q4/06
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
% OF TIME

Load Growth vs. Supply Growth

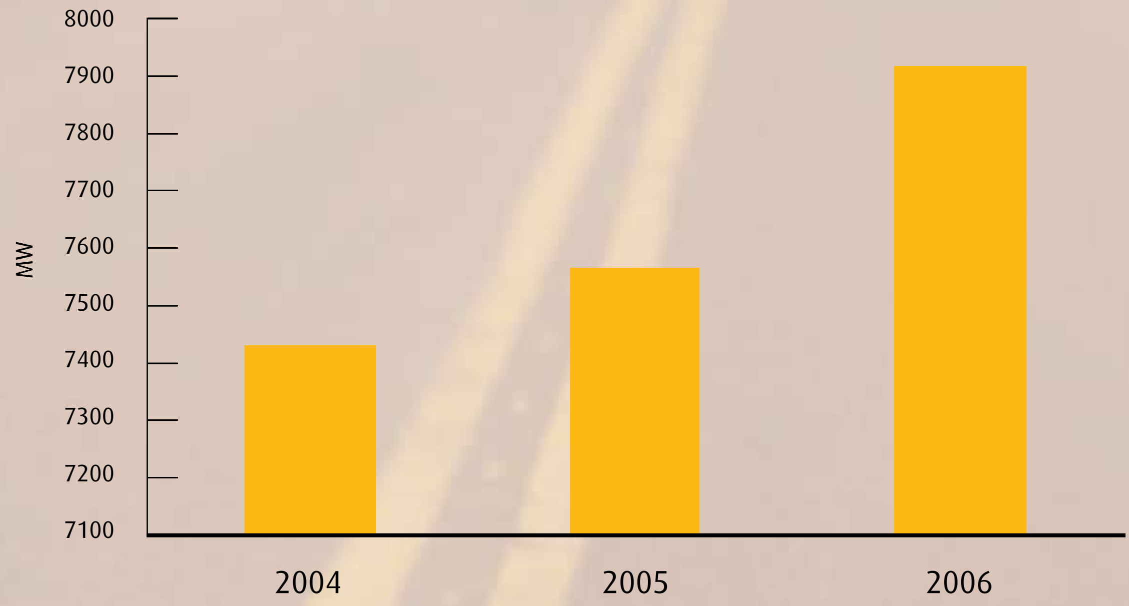
Average hourly load increased by a significant 4.7 percent on a year-over-year basis or approximately 350 MW on average. Peak demand, on the other hand, did not show as substantial an increase as had been expected by the market operator and others. In 2006 peak demand was 9,661 MW – a modest 0.9 percent increase relative to 2005. This can be attributed to the unseasonably mild weather through the December peak demand period.



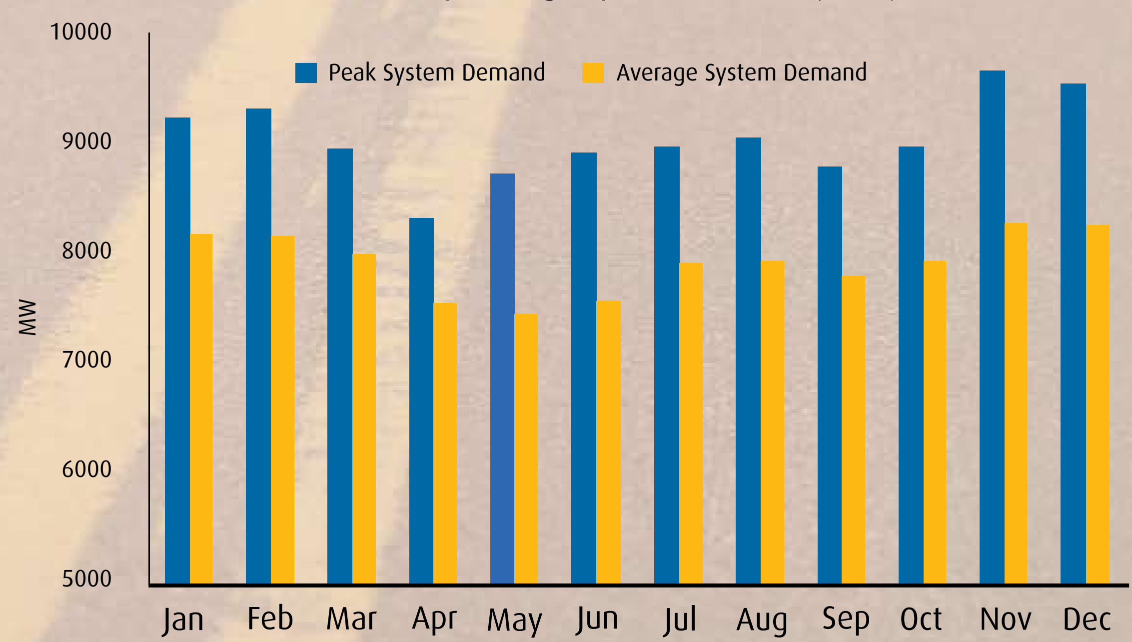
On the supply side, additions in 2006 were modest, with the commissioning of 150 MW of new wind generation as well as minor additions related to oil sands development. With Atco's decommissioning of Rainbow units 1, 2, and 3 at the end of 2006, 90 MW of gas generation left the system.

Unprecedented provincial economic growth in the order of 6 percent was a key driver of the growth in system load observed in 2006. Robust economic growth is expected in 2007 at a pace of four to five percent. System load growth in light of no significant new generation will continue to stress the system. Outages will have a greater impact as the supply cushion becomes leaner.

Average Alberta System Demand

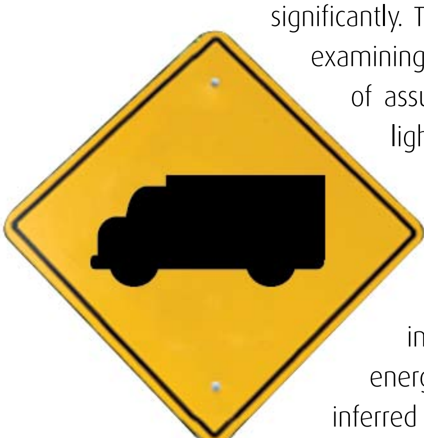


Monthly Average System Demand (2006)



Concentration and Size-based Behaviour

With the elimination of holding restrictions, and subsequent secondary market transactions including the sale of the Battle River and Sheerness PPAs, and the tolling agreement for Calpine Energy Trust's 250 MW gas plant, the largest generators have grown larger. An auction of the Genesee PPA could further alter the picture significantly. The MSA devoted considerable effort during 2006 in examining the mechanisms, possible consequences, and means of assuring a fair, efficient and openly competitive market in light of growing concentration. This included the development of various new tools to better analyze and assess market behaviour.



In early 2006, the MSA observed that a large participant had implemented a persistent "shelf strategy" in which substantial energy volumes were offered within a very small price band. The inferred goal was the managing of Pool price. The MSA views artificial "shelves" in the supply curve as a source of distortion to the market price and therefore harmful to price fidelity. After analyzing this behaviour, the MSA voiced its concerns about this particular size-based strategy. The "shelf strategy" has subsequently abated; however, on occasion the MSA still has concerns about the lack of competition in marginal price setting. It appears a number of participants that historically competed at the margin have stepped back in 2006. As a result, one participant was left to set the price an inordinate amount of the time.

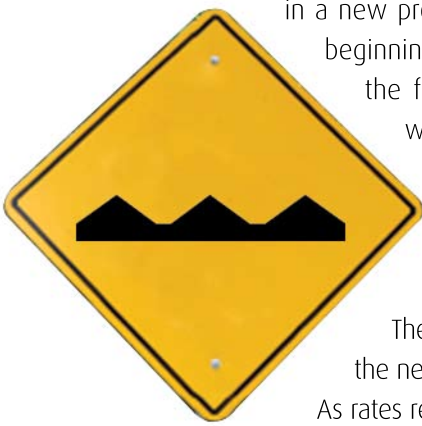
In late 2006, in order to provide the basis for discussions with industry and the provincial Government over market concentration issues, the MSA published a study entitled Market Concentration Metrics. On an offer control basis, market concentration as represented by the Herfindahl-Hershman Index (HHI), has entered a range that other competition agencies such as FERC, and the U.S. Department of Justice describe as moderately concentrated. Pivotal supplier tests such as Residual Supplier Index (RSI) and other metrics reinforce the MSA's concern.

While watchful of these metrics, the MSA is not fixated on concentration per se, but rather on the challenge facing market stakeholders collectively to preserve market competitiveness. The market effects of concentration can be addressed in one of two ways – by limiting participant size or by expecting participants to manage behaviour in an environment of greater concentration. The MSA expects an outcome of 2007 will be tools for the market to help control or mitigate the negative effects of increasing concentration.

Retail Market

New RRO Rate-Setting Process

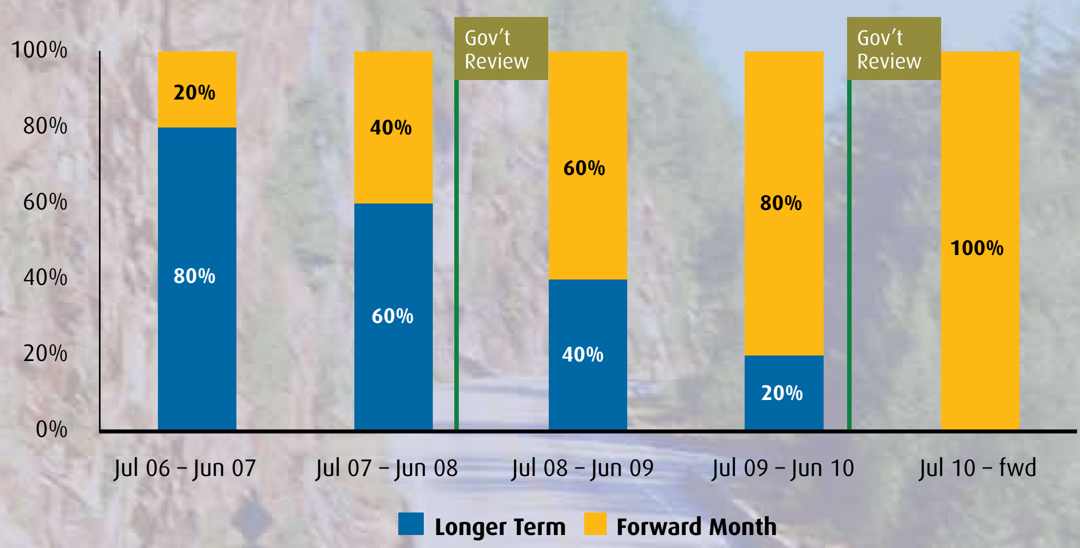
For residential and eligible small commercial consumers that have not signed a contract with a competitive retailer, the new Regulated Rate Option Regulation (AR 262/2005) ushered in a new process for determination of regulated rate tariffs beginning in July 2006. The accompanying chart shows the five-year period mandated in AR 262/2005 during which regulated rates will transition to a rate based fully on the forward month energy price via annually escalating the proportion of the month-ahead energy component.



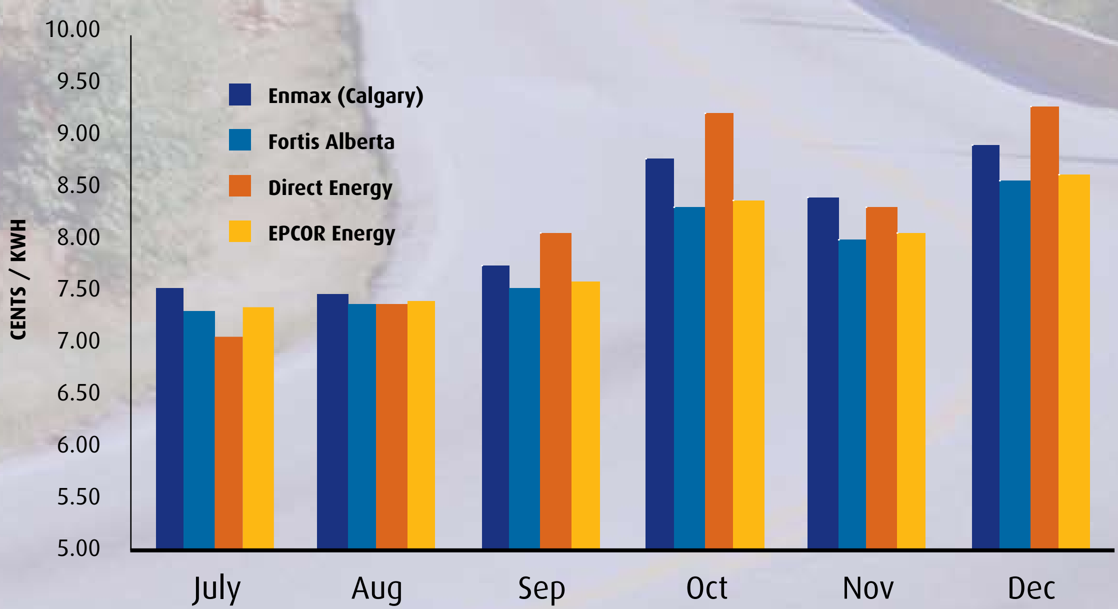
The second graph shows monthly residential RRO rates under the new process for July to December 2006 as filed with the EUB. As rates reflect a growing proportion of month-ahead energy prices, greater market volatility would be expected to be felt by customers relative to historical regulated rates. A government review of the new RRO procurement protocol is scheduled to take place in 2007 to assess how well the new process is working thus far and whether any changes are advisable.

The RRO will have a growing impact on the forward market as a larger proportion of RRO volume will be priced on month-ahead contracts. This will have the added benefit of increasing liquidity and visibility of forward market volumes. The MSA will continue to closely monitor the RRO process in 2007.

RRO Transition Rate Basis



Residential RRO Rates (July – December 2006)



Code of Conduct Regulation

The Code of Conduct Regulation stipulates 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. Government-led discussions about rationalizing the gas and electricity Code regulations, and the possibility that the EUB will assume some electricity Code responsibilities, led the MSA to invite the EUB to participate as an observer in the 2006 Code audit planning.The goal was to facilitate a smooth transition of responsibilities in the event that the EUB does assume some responsibility for the electricity Code (particularly regarding the utilities subject to regulation by the EUB), through acquainting the EUB with the approaches taken by the MSA and by an independent audit firm retained by the MSA to perform the audits. Additionally, the planning process benefited from insights garnered from the EUB, through its own utility audit process.

The audits performed in 2006 again proceeded as scheduled and revealed no material compliance issues.

Process and Operations

When everyone has a veto, the status quo is sure to prevail. This would appear to characterize the state of several market issues including, but not limited to transmission, investment, and adjudication. Going forward, achieving the right balance between collective and individual interests will be a challenge for regulators, policy makers, implementing agencies, market participants, and consumer representatives in keeping Alberta's electricity market fair, efficient, and openly competitive.

Implementation Delays

A number of significant market changes were expected by participants in 2006 which were postponed due to regulatory delays. The AESO's Quick Hits package of rule changes as well as the Balancing Pool's expected auction of the Genesee PPA and amendments to the Market Surveillance Regulation remained on hold while further deliberations on the regulation changes took place. While the fate of an amended Market Surveillance Regulation and the Genesee PPA auction are uncertain, implementation of a modified Quick Hits package appears set for the second quarter of 2007.

Process Frustration

The common law, legislation and the MSA's own procedures provide for fairness and natural justice with respect to the MSA's interactions with market participants. During 2006, some participants have taken an approach of demanding undue procedure as a tool to impair or frustrate the ability of the MSA to discharge its legislative mandate in a reasonable manner. When procedure is used to intentionally frustrate process, the fairness, efficiency, and competitiveness of the market suffers.

Despite this difficulty, the MSA achieved a significant measure of success on the investigation front. Of particular note was the negotiated settlement reached with Enmax Energy Corporation and Enmax Energy Marketing Inc. in 2006. The MSA identified a breach of the Trading Practices Guideline (TPG) involving those Enmax parties on November 8, 2005. After a formal investigation into the matter, the MSA chose to pursue a negotiated settlement rather than to bring the matter before a tribunal. Sanctions included: a public notice acknowledging the event, submission of a compliance plan with respect to the TPG, an industry training session, and two reviews of compliance and related procedures. The MSA is satisfied that these negotiated sanctions were appropriate to the transgression.

MSA Consultation Process

In 2006, the MSA committed to working with stakeholders to develop a defined basis for stakeholder involvement in future market initiatives – for example, development of MSA Guidelines. In early May 2006, the MSA began discussions with stakeholders to define the framework of the new process. After considering stakeholder feedback, the MSA issued its final report in late July entitled "Principles for Stakeholder Engagement, and a Common Framework, for MSA Public Projects". As yet, the new engagement process has not had occasion to be put into use. Following the completion of the first two projects that use the process, the MSA has committed to undertaking an evaluation of how well it is functioning.

Financial Statements

Auditors' Report

To The Market Surveillance Administrator

We have audited the balance sheet of Market Surveillance Administrator as at December 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on text basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Signed] "Price Waterhouse Cooper LLP"

Chartered Accountants
February 13, 2007

TWELVE MONTHS ENDED DECEMBER 31, 2006

BALANCE SHEET

As at December 31,	2006	2005
	$	$
ASSETS		
Current Assets		
Cash	**379,179**	703,503
Accounts receivable	**-**	-
Prepaid expenses and deposits	**50,621**	47,235
	429,800	750,235
CAPITAL ASSETS (note 3)	**48,458**	59,537
	478,258	810,275
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**423,339**	287,351
Deferred revenue (note 4)	**54,919**	522,924
	478,258	810,275
Equity (note 1)	**-**	
	478,258	810,275

On behalf of the corporation:

[Signed] "Martin Merritt"

Martin Merritt
MARKET SURVEILLANCE ADMINISTRATOR

[Signed] "Wayne Silk"

Wayne Silk
VICE PRESIDENT & CHIEF OPERATING OFFICER

Statement of Operations

TWELVE MONTHS ENDED DECEMBER 31, 2006

MARKET SURVEILLANCE ADMINISTRATOR As at December 31,	2006	2005
	$	$
REVENUE		
Alberta Electric System Operator (note 4)	**2,619,362**	2,295,663
Interest Income	**14,525**	5,220
TOTAL REVENUE	**2,633,887**	2,300,883
EXPENSES		
Salaries and benefits	**1,730,279**	1,490,371
Consultants, legal & audit	**500,279**	447,551
Operating, office and administrative	**373,427**	324,940
Amortization	**29,901**	38,021
TOTAL EXPENSES	**2,633,887**	2,300,883
NET EARNINGS (NOTE 1)	**-**	-

Statement of Cash Flow

TWELVE MONTHS ENDED DECEMBER 31, 2006

MARKET SURVEILLANCE ADMINISTRATOR As at December 31,	2006	2005
	$	$
Cash provided by (used for):		
OPERATIONS		
Net earnings	**-**	-
Item not involving cash:		
Amortization	**29,901**	38,021
Change in non-cash operating items:		
Increase (decrease) in accounts receivable	**-**	-
Increase in prepaid expenses and deposits	**(3,386)**	4,933
Increase in accounts payable and accrued liabilities	**135,988**	(285,808)
Increase (decrease) in deferred revenue	**(468,006)**	355,614
	(305,502)	112,759
INVESTING		
Expenditures on capital assets	**(18,821)**	(13,414)
Increase in cash	**(324,323)**	99,346
Cash, beginning of the period	**703,503**	604,157
CASH, END OF THE PERIOD	**379,179**	703,503

Notes to Financial Statements

DECEMBER 31, 2006

1 NATURE OF OPERATIONS

The Market Surveillance Administrator was incorporated as an independent, stand-alone entity on June 1, 2003 under the Electric Utilities Act of the Province of Alberta. Prior to June 1, 2003, the Market Surveillance Administrator function was carried out under the Power Pool Council.

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

The mandate of the Market Surveillance Administrator, as set out in the Electric Utilities Act, includes surveillance and investigation in respect of activities in the electric industry in the Province of Alberta. Those activities include the supply, generation, transmission, distribution, trade, exchange, purchase or sale of electricity, electric energy, electricity services or ancillary services. The objective of carrying out surveillance and investigations are to assess whether or not:

- The conduct of market participants is consistent with the fair, efficient and openly competitive operation of the electricity related markets in Alberta;
- Legislation and market rules are being complied with;
- The market rules are sufficient to discourage anti-competitive practices in the electric industry;
- The market rules facilitate fair, efficient and openly competitive electricity related markets.

The Market Surveillance Administrator has no share capital. The Electric Utilities Act requires that Market Surveillance Administrator prepare a budget for each fiscal year, for approval by the chair of the Alberta Energy and Utilities Board. Once approved, the Alberta Electric System Operator is required to pay the Market Surveillance Administrator the budgeted costs and expenses, net of any other revenues. The Market Surveillance Administrator is to be managed so that no profit or loss results on an annual basis from its operation.

2 SIGNIFICANT ACCOUNTING POLICIES

Capital Assets

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

Computer Hardware	Straight-line	3 Years
Computer Software	Straight-line	3 Years
Furniture & Equipment	Straight-line	5 Years

Income Taxes

No provision has been made for income taxes as the Market Surveillance Administrator is a not-for-profit organization as set out in the Electric Utilities Act of the Province of Alberta.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities.

Revenue Recognition

Consistent with the requirements of the Electric Utilities Act that the Market Surveillance Administrator operate with no annual profit or loss, collections 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 collections are in excess of annual costs, the excess is deferred and recognized in future periods. In the event of a shortfall between collections and costs, the shortfall in revenue will be accrued and be collected in a subsequent period from the Alberta Electric System Operator.

3 CAPITAL ASSETS

	2006			2005
	COST	**ACCUMULATED AMORTIZATION**	**NET BOOK VALUE**	NET BOOK VALUE
	$	**$**	**$**	$
Computer Hardware	**55,725**	**46,119**	**9,606**	16,200
Computer Software	**26,498**	**25,586**	**912**	4,705
Furniture & Equipment	**90,461**	**52,521**	**37,940**	38,632
	172,684	**124,226**	**48,458**	59,537

4 DEFERRED REVENUE

The collections from the Alberta Electric System Operator are set to recover the operating and capital costs of the Market Surveillance Administrator. Any excess or shortfall in collections is deferred to or accrued for future years.

	2006	2005
	$	$
Alberta Electric System Operator		
Opening balance, January 1	**522,924**	167,311
Collection for February to December 2006	**2,151,357**	2,455,699
Less: 2006 Revenue	**(2,619,362)**	(2,295,663)
	54,919	327,347
Collection for January 2007	**-**	-
CLOSING BALANCE, DECEMBER 31	**54,919**	522,924

5 COMMITMENTS

The Market Surveillance Administrator is committed under a lease agreement for its current premises until October, 2009. Total lease costs including estimated operating costs are approximately as follow:

	$
2007	117,000
2008	117,000
2009	98,000

The Market Surveillance Administrator has entered into a service agreement with the Alberta Electric System Operator, under which the Market Surveillance Administrator receives certain information technology and office services. These services are provided for a monthly fee of $2,900, plus an hourly fee for special projects.

6 CREDIT FACILITY

The Market Surveillance Administrator has a demand operating facility. Under the terms and conditions of this facility, the corporation can borrow up to $300,000 at the prime rate of interest. No pledges of security are required from the corporation for the facility and no amount was drawn on this facility at year-end.

Left to right

Standing: Douglas Wilson, Kerry Snelson, Mark McGillivray, Jenny Chen, Janene Taylor, Rob Spragins, Mike Nozdryn-Plotnicki, Martin Merritt

Seated: Matt Ayres, Doug Doll, Wayne Silk, Donna Ehrhardt

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