

Report to the Minister

For the Year Ending December 31, 2019

April 29, 2020

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

April 29, 2020

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

Re: The 2019 Annual Report of the Market Surveillance Administrator

Dear Minister,

I am pleased to submit the Annual Report of the Market Surveillance Administrator (MSA) for the year ending December 31, 2019. This report is provided to you pursuant to section 38(1) of the *Alberta Utilities Commission Act*.

On April 22, 2020, I was appointed to the position of Administrator for an interim period of nine months to provide renewed focus to role of the MSA and its oversight of the electricity market. During this appointment, the MSA will focus on market surveillance and enforcement, and will work with all interested stakeholders to provide greater clarity and certainty for Alberta's competitive electricity market participants and investors.

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

Yours truly,

Derek Olmstead
Market Surveillance Administrator

Cc: Honourable Dale Nally, Associate Minister of Natural Gas and Electricity
Grant Sprague, Deputy Minister of Energy
David James, Associate Deputy Minister of Natural Gas and Electricity
Mark Kolesar, Chair, Alberta Utilities Commission

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1 INTRODUCTION

The Market Surveillance Administrator (MSA) is an independent law enforcement agency created under the *Alberta Utilities Commission Act (AUCA)*. This Annual Report for 2019 is provided pursuant to section 38(1) of the AUCA, which requires that the MSA provide the Minister of Energy with an annual report that reports on the MSA's activities in the fiscal year and contains its audited financial statements for the fiscal year.

The MSA's mission is to take action to promote effective competition and a culture of compliance and accountability in Alberta's electricity and retail natural gas markets. As set out in section 39 of the AUCA, the MSA's mandate is to promote the fair, efficient and openly competitive operation of the electricity and retail natural gas markets. The MSA's roles in these markets are to conduct surveillance and report publicly on the competitiveness of market outcomes, investigate market participant conduct, prudently bring enforcement actions before the Alberta Utilities Commission (AUC), and publish guidelines to support the fair, efficient, and openly competitive operation of these markets. The MSA may investigate and seek administrative penalties or other remedies before the AUC for contraventions of the *Electric Utilities Act (EUA)*, the *Fair, Efficient and Open Competition Regulation (FEOC Regulation)*, the ISO rules, and the Alberta Reliability Standards.

The sections that follow set out:

- The MSA's activities in 2019 to promote effective competition;
- The work of the MSA's operating committees in 2019, through which it organizes its Enforcement, Compliance, Critical Infrastructure Protection, and Market Analysis work; and
- The MSA's audited financial statements for 2019.

2 PROMOTION OF EFFECTIVE COMPETITION

In 2019, the MSA conducted several public consultations and participated in a number of other regulatory proceedings with the intent of advancing the fair, efficient, and openly competitive operation of the electricity market. This section summarises these activities.

2.1 Offer behaviour consultation

The Offer Behaviour Enforcement Guidelines (OBEG) were introduced on January 14, 2011, and revoked six years later in May 2017. On September 27, 2018, the MSA announced that it would hold a consultation to determine if the OBEG should be reissued.¹ A consultant's report

¹ See the MSA's notice re "[Offer Behaviour Guidelines prior to the implementation of a capacity market.](#)" September 27, 2018.

was made public on December 10, 2018,² and a public stakeholder session was held on January 17, 2019. Market participants provided written³ comments to the MSA in response to report and orally⁴ at the stakeholder session.

On May 24, 2019,⁵ the MSA announced that it would defer a decision on the OBEG until the AUC's Capacity Market Proceeding was concluded.

Following the Government of Alberta's (Government) decision on July 24, 2019⁶ not to proceed with the implementation of a capacity market for Alberta, the Government launched a review to examine concerns about market concentration following the expiry of Power Purchase Arrangements (PPAs).

On October 2, 2019, the MSA announced that it would defer further consideration of the OBEG.⁷

2.2 Advisory Opinion Program

Following requests received from market participants, in October 2018, the MSA initiated stakeholder consultation to consider whether a voluntary Advisory Opinion Program (AOP) would be helpful to market participants.⁸ The MSA retained an independent consultant to prepare a report that addressed three questions: Could an AOP assist market participants? If so, what form should that program take? What has been the experience of other regulators with these types of programs?

The above report (Report) was made public on December 14, 2018.⁹ Subsequently, market participants provided written comments to the MSA in response to the Report itself¹⁰ and orally¹¹ at a public stakeholder session held on February 27, 2019.¹²

² See Charles River Associates' report "[Offer behaviour guidelines prior to the implementation of a capacity market.](#)" December 10, 2018.

³ See the MSA's notice re "[Stakeholder comments re: consultant's report on Offer Behaviour Guidelines prior to the implementation of the capacity market.](#)" January 14, 2019.

⁴ See the MSA's notice re "[Oral feedback re: consultant's report on Offer Behaviour Guidelines prior to the implementation of the capacity market.](#)"

⁵ See the MSA's notice re "[Decision regarding stakeholder consultation – Offer Behaviour Enforcement Guidelines prior to the implementation of a capacity market.](#)" May 24, 2019.

⁶ See the Government's [announcement](#).

⁷ See the MSA's notice re "[MSA Consultation re Offer Behaviour Enforcement Guidelines.](#)" October 2, 2019.

⁸ See the MSA's notice re "[Advisory Opinion Program.](#)" October 22, 2018.

⁹ Ian Nielsen-Jones, "[Report to the Market Surveillance Administrator of Alberta regarding the merits of introducing an Advisory Opinions Program.](#)" December 14, 2018.

¹⁰ See the MSA's notice re "[Stakeholder Comments re: Advisory Opinion Programme.](#)" January 23, 2019.

On October 23, 2019, the MSA formally established an AOP whereby market participants could request an “advisory opinion” from the MSA.¹³

As of April 29, 2020, no request for an “advisory opinions” has been made to the MSA.

2.3 Capacity market proceeding

On November 23, 2016,¹⁴ the Government announced that Alberta would implement a capacity market. The AESO filed an application for the approval of rules to implement the capacity market on January 31, 2019. An oral hearing was held by the AUC from April 22, 2019 to June 11, 2019.

The MSA participated extensively in this proceeding through the submission of five independent expert reports related to the issues of (i) regulatory oversight of capacity markets, including learnings from experience elsewhere, and (ii) selected market design issues,¹⁵ and seated a panel of witnesses for cross-examination.

2.4 Other activities to promote competition

The MSA participated in a number of other consultations in 2019 with the intent of promoting competition, including the AUC’s Distribution System Inquiry; the AUC’s consultation regarding self-supply and exports; the AUC’s consultation regarding its Strategic Plan for 2019-2022; and the AESO’s consultation regarding market power and market power mitigation.

3 THE MSA’S OPERATING COMMITTEES

The MSA organizes the work done to carry out its mandate into four operating committees: Enforcement, Compliance, Critical Infrastructure Protection, and Market Analysis. The work of each of these committees is summarised below.

3.1 Enforcement Committee

3.1.1 The committee

The Enforcement Committee manages and decides on enforcement matters before the MSA. In carrying out its activities, the MSA follows its publicly-available Investigation Procedures.¹⁶

¹¹ See the MSA’s notice re [“Oral feedback re: Consultant’s report on Advisory Opinion Programme.”](#) May 7, 2019.

¹² See the MSA’s notice re [“Advisory Opinion Program.”](#) January 18, 2019.

¹³ The [AOP process](#) is available on the MSA’s website.

¹⁴ See the Government’s [announcement](#).

¹⁵ The five reports were filed in AUC Proceeding 23757 as Exhibits 0124, 0389, 0390, 0511, and 0512.

¹⁶ The MSA’s [Investigation Procedures](#) are available on the MSA’s website.

3.1.2 Activities in 2019 and early 2020

At the beginning of 2019, there were five active matters before the Enforcement Committee. All of these matters have been resolved. Throughout 2019, ten new matters were brought before the Enforcement Committee. Of these 15 matters, eight were resolved in 2019 and seven were carried over to 2020.

For each of the 8 matters that the Enforcement Committee decided in 2019, MSA staff prepared an Issue Assessment which included detailed analysis of the underlying issue. This set of matters included four related to section 2 of the FEOC Regulation and one related to each of the cap on retail prices, the *Code of Conduct Regulation*, ISO Rule 203.1, and ISO Rule 303.1.

The seven outstanding matters at the end of 2019 include the Balancing Pool settlement which has since been closed and is discussed further below.

3.1.3 Balancing Pool settlement

On August 15, 2018, the MSA applied to the AUC for approval of a settlement agreement (Settlement) reached with the Balancing Pool (BP). This Settlement followed an investigation of the conduct of the BP in the period between the termination of Power Purchase Agreements (PPAs), commencing in December 2015, and the BP's acceptance of the Keephills PPA termination on December 6, 2017. At the conclusion of the investigation, the MSA was satisfied that the BP breached Section 85(1)(b) of the EUA and Sections 2(1)(g) and 2(1)(h) of the *Balancing Pool Regulation* (BP Regulation).

On August 1, 2019, the AUC rejected the Settlement and referred it back to the parties so that they would have an opportunity to address the AUC's concerns.

On October 8, 2019, the MSA filed a Revised Settlement with the AUC.¹⁷ Under the Revised Settlement, the BP agreed to submit monthly reports to the MSA that provide extensive detail about its operations and strategy related to the remaining PPAs. On January 14, 2020, the AUC approved the Revised Settlement as filed.

Pursuant to the Revised Settlement, the BP began submitting monthly reports to the MSA at the end of January. As of April 29, 2020, reports for January and February 2020 have been provided to the MSA.

3.1.4 Administration of the cap on retail electricity prices

Electricity customers who do not select a competitive retailer for electricity services are automatically enrolled on a default rate. The electricity regulated rate for smaller customers is called the Regulated Rate Option (RRO).

¹⁷ The [Revised Settlement Agreement](#) is available on the MSA's website.

In November 2016, the Government announced a rate cap of 6.8 cents/kWh on regulated electricity rates for small customers not on competitive contracts. This cap took effect in June 1, 2017 and was to remain in effect until May 31, 2021. In the autumn of 2019, the Government announced that the rate cap would be removed at the end of November 2019.

While the cap was in place, the MSA was required on a monthly basis to review the calculations submitted by each of about three dozen Rural Electrification Associations (REAs), and the City of Medicine Hat. These entities were allowed to claim a payment per kWh that was at maximum equal to the difference between 6.8 cents/kWh and the average of the rate for the large RRO providers that are regulated by the AUC (ENMAX, EPCOR, and Direct Energy), plus 10%.

As of April 2020, the MSA has approved approximately \$13 million in deferral account compensation to RRO providers, including \$9.1 million for REAs and \$4.0 million for the City of Medicine Hat.

Upon the conclusion of the rate cap program, the *Rate Cap Regulation* requires the MSA to conduct a “final review and disposition” audit the approved payments claimed by the REAs and the City of Medicine Hat. These audits will be completed in 2020.

3.2 Compliance Committee

3.2.1 The committee

Pursuant to AUC Rule 019, the MSA has the jurisdiction to assess whether or not a market participant has complied with ISO rules and apply a specified penalty where appropriate.¹⁸

The ISO rules are developed by the AESO in consultation with market participants and are submitted to the AUC for approval. The MSA provides input into the development of ISO rules and may participate in approval proceedings before the AUC.

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

3.2.2 Activities in 2019

In 2019, the MSA issued 181 notices of specified penalty for contraventions of ISO rules for a total of \$326,000 in financial penalties.

¹⁸ Where the MSA is satisfied that a contravention of an ISO rule or ARS has occurred, defined financial penalties set out in AUC rules may be applied. Escalating penalties for repeated contraventions and discounts for self-reported conduct are specified for contraventions of the ISO rules. Varying penalties based on the nature and severity of contraventions, as well as discounts for self-reported conduct and acceptable mitigation plans, are specified for contraventions of ARS.

The MSA considered 593 ISO rules compliance matters in 2019, an increase from 467 matters in 2018.¹⁹ Since 2008, the MSA's work enforcing ISO rules has resulted in approximately \$1.85 million in financial penalties being assessed to market participants.

3.3 Critical Infrastructure Protection Committee

3.3.1 *The committee*

Pursuant to AUC Rule 027, the MSA has the jurisdiction to assess whether or not a market participant has complied with Alberta Reliability Standards (ARS) and apply a specified penalty where appropriate.

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

ARS apply to both market participants and the AESO. ARS are divided into two categories: Operations and Planning (O&P) and Critical Infrastructure Protection (CIP). The first O&P ARS were introduced in Alberta in 2010 and the first CIP ARS were introduced in Alberta in 2017.

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

3.3.2 *AUC Rule 027*

AUC Rule 027 requires the MSA to report publicly with respect to all compliance breaches, whether they are CIP ARS or O&P ARS. However, CIP matters often deal with cyber security issues and there is a growing concern in both Canada and the United States that broad public reporting creates a security risk in itself.

In the United States, the FERC currently has a proceeding underway to address this very issue. The MSA has raised this concern with both the AESO and the AUC. The MSA has made two submissions to the AUC on this topic.²⁰

¹⁹ See [MSA Interim Compliance Report](#), published December 2019.

Until the MSA receives direction from the AUC regarding CIP reporting, the MSA will continue to refrain from publishing CIP statistics.

3.3.3 Activities in 2019

In 2019, the MSA issued 8 notices of specified penalty for contraventions O&P ARS for a total of \$54,000 in financial penalties. Although the MSA is not publishing specific statistics on CIP ARS breaches in 2019, the inflow of ARS files continued at a pace similar in 2019 to 2018. This is largely related to the implementation of CIP ARS in 2017.

Market participants are audited by the AESO on a 3-year cycle for their compliance with the ARS, both CIP and O&P. In addition, the MSA engages WECC to audit the AESO. In 2019, there was no scheduled audit; the next onsite audit of the AESO is expected to occur in 2021.

3.4 Market Analysis Committee

3.4.1 The committee

The Market Analysis Committee oversees the MSA's participation in ISO rule consultations and conducts the MSA's work relating to information sharing and market share offer control (sections 3 and 5 of the FEOC Regulation, respectively).

3.4.2 ISO rules consultations

In 2019, the MSA completed an analysis of ISO Rule 203.6 regarding requirements placed on intertie participants to restate declarations of interchange schedules. Over the period 2010-2018 this rule (and a substantively similar ISO Rule 6.3.3) have accounted for 14% of all referrals, 12% of all self-reports and total penalties of \$892,000. Modification of the current rule would appear to be possible without impact on system reliability and might further support competitive participation on the interties. In early 2020, the MSA proposed the amendment of the existing rule. That proposal is currently under consideration by the AESO.

3.4.3 Information sharing

Section 3 of the FEOC Regulation limits the sharing of competitive offer information between different market participants. Market participants with a reason to share such information, for example, they may lack the resources to accept real time dispatches in the electricity market, must apply for approval from the AUC to share competitive offer information. Participation in AUC proceedings under section 3 is restricted to the parties wishing to share information and the MSA. The reason for this is that the relevant arrangements are commercially sensitive in nature. The MSA typically works with market participants to resolve any concerns it may have

²⁰ See the MSA's [Submission related to the Commission's 2019-2022 Strategic Plan](#), October 29, 2019 and the MSA's letter [Re AUC Bulletin 2020-03 Proposed Changes to AUC Rule 027](#), February 28, 2020.

prior to an application to the AUC in an effort to ensure an efficient and effective regulatory process.

In 2019, the MSA has participated in six AUC proceedings related to information sharing. In five of those, the MSA supported the application. In one, the MSA was of the view that no order was necessary given the information the parties had proposed to share. The AUC subsequently agreed with the MSA that no order was required.

3.4.4 Market share offer control reporting

Section 5 of the FEOC Regulation requires that no market participant control greater than 30% offer control in the Alberta electricity market. This restriction is part of the framework that ensures market prices are not unduly influenced by any one market participant. Section 5 requires the MSA to report publicly on market share offer control at least annually.

The MSA's Market Share Offer Control Report 2019 was released as part of its first quarter 2019 report.²¹ The Market Share Offer Control Report 2020 was published on February 28, 2020.²² No market participant has or is currently in breach of the 30% restriction.

4 FINANCIAL STATEMENTS

Consistent with the requirements of the AUCA that the MSA must operate without profit or loss, the MSA's fiscal operations are managed in accordance with an annual budget approved by the Chair of the AUC, and funded by industry contributions collected by the AESO.

AESO contributions are recognized as revenue to the extent of annual operating expenses including amortization. In circumstances where annual contributions are in excess of annual expenses, the excess is deferred and recognized in future periods. In 2019, after meeting its annual operating expenses, the MSA deferred \$112,331 of contributions to offset fiscal 2020 expenses.

During 2019 the MSA incurred increased legal and consulting costs to support the capacity market proceeding, the Distribution System Inquiry, Balancing Pool settlement, and Critical Infrastructure Protection reliability standards compliance.

The MSA entered into a new office lease effective October 2019. This new lease provides a rent-free period until July 2020, and is projected to save \$1.64 million in total rent payments over the ten year lease term.

The MSA's audited financial statements for the year ended December 31, 2019 follow. The format of the financial statements reflects accounting standards for not-for-profit organizations.

²¹ See the MSA's [Market Share Offer Control Report 2019](#), September 24, 2019.

²² See the MSA's [Market Share Offer Control Report 2020](#), February 28, 2020.

Independent auditor's report

To the Management of Market Surveillance Administrator

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Market Surveillance Administrator (the Administrator) as at December 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Administrator's financial statements comprise:

- the balance sheet as at December 31, 2019;
 - the statement of operations and changes in net assets for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

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

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

Independence

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 4, 2020

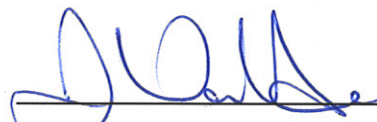
**Market Surveillance Administrator
Balance Sheet
As at December 31, 2019**

	2019	2018
	\$	\$
Assets		
Current Assets		
Cash	556,540	1,585,081
Accounts receivable	611,614	404,534
Prepaid expenses and deposits	35,230	32,922
	<u>1,203,384</u>	<u>2,022,537</u>
Capital Assets (note 3)	<u>691,452</u>	<u>32,169</u>
	<u>1,894,836</u>	<u>2,054,706</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	817,310	529,489
Current portion of deferred lease inducement	76,404	-
Deferred contributions (note 4)	541,714	1,525,217
	<u>1,435,428</u>	<u>2,054,706</u>
Deferred lease inducement	<u>459,408</u>	<u>-</u>
	<u>1,894,836</u>	<u>2,054,706</u>
Net Assets (note 1)	<u>-</u>	<u>-</u>
	<u>1,894,836</u>	<u>2,054,706</u>
Commitments (note 5)		
Contingencies (note 7)		

On behalf of the corporation:



Gordon Kaiser, Chief Executive Officer
Market Surveillance Administrator



Jim Van Horne, Chief Financial Officer
Market Surveillance Administrator

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

Market Surveillance Administrator
Statement of Operations and Changes in Net Assets
For the year ended December 31, 2019

	2019	2018
	\$	\$
Revenue		
Contribution from the Alberta Electric System Operator (note 4)	5,650,864	3,434,215
Interest and other income	18,522	114,108
	<u>5,669,386</u>	<u>3,548,323</u>
Expense		
Salaries and benefits (note 7)	3,026,883	2,481,982
Consultants and audit	1,417,229	237,560
Legal fees	642,787	360,702
Operating, office and administrative	556,649	445,387
Amortization	25,838	22,692
	<u>5,669,386</u>	<u>3,548,323</u>
Excess (deficiency) of revenue over expense	-	-
Net assets - Beginning of year	<u>-</u>	<u>-</u>
Net assets - End of year	<u>-</u>	<u>-</u>

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

Market Surveillance Administrator
Statement of Cash Flows
For the year ended December 31, 2019

	2019	2018
	\$	\$
Cash provided by (used for):		
Operations		
Excess (deficiency) of revenue over expense	-	-
Item not involving cash:		
Amortization	25,838	22,692
Change in non-cash operating items:		
(Increase) in accounts receivable	(207,080)	(48,548)
(Increase) decrease in prepaid expenses and deposits	(2,308)	553
Increase (decrease) in accounts payable and accrued liabilities	287,821	(51,736)
Increase in deferred lease inducement	535,812	-
(Decrease) increase in deferred contributions	(983,503)	654,263
	<u>(343,420)</u>	<u>577,224</u>
Investing		
Expenditures on capital assets	<u>(685,121)</u>	<u>(9,199)</u>
(Decrease) Increase in cash	(1,028,541)	568,025
Cash, beginning of the year	<u>1,585,081</u>	<u>1,017,056</u>
Cash, end of the year	<u><u>556,540</u></u>	<u><u>1,585,081</u></u>

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

**Market Surveillance Administrator
Notes to the Financial Statements
For the year ended December 31, 2019**

1 Nature of Operations

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

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

The MSA has a broad mandate including surveillance, investigation, and enforcement to help ensure fair, efficient, and openly competitive electricity and retail natural gas markets in Alberta. The MSA monitors the behaviour of market participants and the overall performance of the market to ensure there are no anti-competitive activities and that rules are appropriate and are working as intended.

The MSA also issues guidance to the market and makes recommendations to the Department of Energy and other parties where appropriate, toward the development and operation of a fair, efficient and openly competitive market.

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

2 Significant Accounting Policies

Basis of preparation

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

Cash

Cash consists of cash held with chartered financial institutions.

Capital Assets

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

Computer Hardware	Straight-line	3 Years
Computer Software	Straight-line	3 Years
Leasehold Improvements	Straight-line	Lease Term
Furniture & Equipment	Straight-line	5 Years

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

Leases

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

The MSA does not have any leases that are classified as capital leases as at December 31, 2019.

Income Taxes

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

Financial Instruments

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

Revenue Recognition

MSA follows the deferral method of accounting for contributions.

Consistent with the requirements of the Alberta Utilities Commission Act that the MSA operate with no annual profit or loss, contributions from the Alberta Electric System Operator are recognized as revenue to the extent of annual operating costs including amortization of capital costs. In circumstances where annual contributions are in excess of annual costs, the excess is deferred and recognized in future periods. In the event of a shortfall between contributions and costs, the shortfall in revenue will be accrued and be collected in a subsequent period from the Alberta Electric System Operator.

Measurement Uncertainty

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using management's best judgement. Actual results could differ from those estimates.

Change in accounting policies

Effective January 1, 2019, MSA adopted the new standards in the Chartered Professional Accountants of Canada Handbook, Part III – Accounting for Not-for-Profit Organizations Sections 4433 (Tangible Capital Assets Held by Not-for-Profit Organizations).

The adoption of Section 4433 – Tangible Capital Assets Held by Not-for-Profit Organizations resulted in a change to MSA's accounting policies with respect to componentization and amortization of tangible capital assets. The cost of tangible capital assets made up of significant separable component parts has no material impact for MSA.

In accordance with Section 4433, MSA's accounting policies with respect to impairment of long-lived assets have also been revised with no material impact for MSA.

3 Capital Assets

	2019			2018
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Hardware	158,062	154,487	3,575	5,070
Computer Software	76,769	76,318	451	2,793
Leasehold Improvements	528,146	20,089	508,057	-
Furniture & Equipment	339,239	159,870	179,369	24,306
	<u>1,102,216</u>	<u>410,764</u>	<u>691,452</u>	<u>32,169</u>

4 Deferred Contributions

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

	2019	2018
	\$	\$
Alberta Electric System Operator		
Opening balance, January 1	1,525,217	870,954
Add: Contributions February to December	4,237,978	3,703,207
Less: Revenue recognized in the year from AESO	<u>(5,650,864)</u>	<u>(3,434,215)</u>
	112,331	1,139,946
Contribution for January	429,383	385,271
Closing balance, December 31	<u>541,714</u>	<u>1,525,217</u>

5 Commitments

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

This lease provides the MSA with landlord funded capital improvements and rent free periods as part of this lease. The MSA has added \$535,812 of landlord funded capital improvements and rent free periods during 2019. These benefits will be amortized on a straight-line basis over the lease term.

Total lease costs are approximately as follows:

	\$
2020	63,776
2021	153,062
2022	153,062
2023	153,062
2024	153,062
2025	162,874
2026	176,610
2027	176,610
2028	176,610
2029	176,610
2030	103,023

The MSA has entered into a service agreement with the Alberta Electric System Operator, under which the MSA receives certain information technology and office services. These services are provided for a monthly fee of \$3,860, plus an hourly fee for special projects.

6 Credit Facility

The MSA has a demand operating facility. Under the terms and conditions of this facility, the MSA can borrow up to \$300,000 at the prime rate plus 0.75% of interest. No pledges of security are required from the corporation for the facility and no amount was drawn on this facility at year-end.

7 Contingencies

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