

# Annual Report

For the Year Ending December 31, 2021

April 27, 2022

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

April 27, 2022

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

**Re: Annual Report for the year ending December 31, 2021**

Dear Minister,

I am pleased to submit the Annual Report of the Market Surveillance Administrator (MSA) for the year ending December 31, 2021. This report is provided to you pursuant to section 38(1) of the *Alberta Utilities Commission Act*.

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  
Stephanie Clarke, Associate Deputy Minister of Natural Gas and Electricity  
Carolyn Dahl Rees, Chair, Alberta Utilities Commission

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## 1 INTRODUCTION

The MSA is an independent agency created under the *Alberta Utilities Commission Act* (AUCA) 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, bring enforcement actions before the Alberta Utilities Commission (AUC), and publish guidelines to support the fair, efficient, and openly competitive operation of these markets. The MSA may investigate and seek administrative penalties or other remedies before the AUC for contraventions of the *Electric Utilities Act* (EUA), the *Fair, Efficient and Open Competition Regulation* (FEOC Regulation), the ISO rules, and the Alberta Reliability Standards (ARS).

This Annual Report for 2021 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.

Section 2 of this report summarizes the MSA's activities in 2021. Section 3 provides the MSA's audited financial statements for 2021.

## 2 REVIEW OF 2021 ACTIVITIES

### 2.1 Surveillance

#### 2.1.1 *Publication of Quarterly Reports*

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

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

It is through these reports, pursuant to sections 38(3) and (4) of the AUCA, that the MSA makes available to the Minister of Energy and the public its views on market events or conditions related to the MSA's mandate. The MSA has publicly stated that it will aim to publish its Quarterly Report within six weeks (30 business days) of the end of each quarter. For the year 2021, the MSA published four Quarterly Reports:

- Quarterly Report for Q4 2020 on February 12, 2021;<sup>1</sup>

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<sup>1</sup> [MSA Quarterly Report for Q4 2020](#) (February 12, 2021)

- Quarterly Report for Q1 2021 on May 14, 2021;<sup>2</sup>
- Quarterly Report for Q2 2021 on August 13, 2021;<sup>3</sup> and
- Quarterly Report for Q3 2021 on November 12, 2021.<sup>4</sup>

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

The Quarterly Report for Q4 2021 was published on February 11, 2022.<sup>5</sup>

### **2.1.2 Market Share Offer Control report**

Section 5(3) of the FEOC Regulation requires the MSA to at least annually make available to the public an offer control report that:

- includes the names and the percentage of offer control held by electricity market participants, where the percentage of offer control is greater than 5%, and
- may include the names and the percentage of offer control held by electricity market participants, where the percentage of offer control is 5% or less.

The MSA’s standard practice is to publish one offer control report per year. To reduce the number of documents on the MSA’s website, beginning in 2021 the MSA has incorporated this publication into its Quarterly Reports. For 2021, the MSA’s Market Share Offer Control report was published in its Quarterly Report for Q1 2021.

### **2.1.3 Development of new ISO rules**

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

In 2021 the MSA submitted comments in three ISO rule consultations related to operating reserves, adequacy of supply and mothball outage reporting. All consultations are ongoing. With respect to the operating reserves consultation, the MSA notes that many of the changes put

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<sup>2</sup> [MSA Quarterly Report for Q1 2021](#) (May 14, 2021)

<sup>3</sup> [MSA Quarterly Report for Q2 2021](#) (August 13, 2021)

<sup>4</sup> [MSA Quarterly Report for Q3 2021](#) (November 12, 2021)

<sup>5</sup> [MSA Quarterly Report for Q4 2021](#) (February 11, 2022)

forward by the AESO have been suggested previously by the MSA in its Quarterly Reports. The MSA will continue to closely monitor the market and the development of ISO rules and actively participate in matters related to its mandate, including competition in the electricity market.

#### **2.1.4 Retail statistics**

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

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

## **2.2 Enforcement**

### **2.2.1 Summary of enforcement matters and meetings of the Enforcement Committee**

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

In 2021, the Enforcement Committee oversaw decisions on 13 matters at ten Enforcement Committee meetings. The Enforcement Committee also oversaw decisions on 12 matters related to information sharing. These matters, categorized by the main applicable legislation, are set out in Table 2. The enforcement group also considered a variety of minor matters.

*Table 1: Matters overseen by the MSA’s Enforcement Committee in 2021*

<b>Statute / Regulation</b>	<b>Resolved</b>
<i>Code of Conduct Regulation</i>	1
<i>Small Scale Generation Regulation</i>	1
<i>Electric Utilities Act, section 85</i>	1
FEOC Regulation, section 2	2
FEOC Regulation, section 3	15
FEOC Regulation, section 4	1
<i>Distribution Tariff Regulation</i>	1
<i>Micro-generation Regulation</i>	2
No relevant statute or regulation	1
<b>Total</b>	<b>25</b>

Brief descriptions of a selection of notable matters considered and decided by the MSA's Enforcement group and Enforcement Committee are provided below.

### **2.2.2 Balancing Pool investigation**

On September 2, 2020, the MSA issued a public notice that stated:<sup>6</sup>

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

The MSA indicated in its Quarterly Report for Q4 2021 that this investigation has been discontinued. The MSA found that it was not in the public interest to continue further investigation or proceed with enforcement action because:

- the Balancing Pool has no current or future physical or financial interest in the Alberta electricity market;
- the Balancing Pool has no access to funds other than charges levied on electricity consumers through the Balancing Pool Allocation; and
- there is limited specific or general deterrence that would result from proceeding with this matter, since the Balancing Pool was a unique market participant that is no longer in the market.

### **2.2.3 Advisory Opinion Program request**

The MSA's Advisory Opinion Program gives market participants the opportunity to request a non-binding opinion from the MSA regarding whether proposed business conduct and practices are compliant with obligations under the *Electric Utilities Act* and regulations made thereunder. In 2021, the MSA received its first request for an opinion from a retail market participant regarding the ability to share customer information between a competitive retailer and default supplier for the purpose of collecting an unpaid bill. The MSA published the opinion in its Quarterly Report for Q3 2021.

### **2.2.4 Rural Electrification Association prudential requirements**

The MSA received a complaint requesting that the MSA look into the financial security requirements of a Rural Electrification Association (REA). The complaint alleged that the REA set security requirements higher than specified by the *Distribution Tariff Regulation*, which imposes excessive costs on retailers and could be used as a means of discouraging competing retailers

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<sup>6</sup> [MSA Notice re Balancing Pool investigation](#) (September 2, 2020)

from entering or remaining in the market. After discussions with the MSA, the REA changed its terms and conditions to align with the *Distribution Tariff Regulation*. The complainant was notified of these changes and satisfied with the outcome.

### **2.2.5 Micro-generation rates**

The MSA was alerted in late 2020 that an electricity retailer was offering two rates that small micro-generation customers could switch between depending on expected export levels to the grid (the rates were 22.00 ¢/kWh and 6.70 ¢/kWh at the time). The retail price is important because the AESO is required to refund the retailer at the retail price for all exports from a small micro-generation site. The MSA determined that this pricing behavior was in not in contravention with any provision of the *Micro-generation Regulation* and the matter was closed. The MSA published detailed summaries of its findings in its Quarterly Reports for Q1 2021 and Q3 2021.

### **2.2.6 Preferential sharing of records**

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

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

In 2021, the MSA reviewed and provided feedback on twelve information sharing applications to the AUC. Changes were suggested and accepted for three applications. No further changes were required by the MSA or AUC when the applications were heard by the AUC. An information request was submitted during an AUC proceeding for one application that was not provided to the MSA prior to submission. The MSA believes that it can continue to help reduce regulatory burden by engaging with market participants in similar instances.



## **2.3 Compliance**

### **2.3.1 Compliance Review 2021**

Pursuant to section 23(2) of the *Transmission Regulation*, the MSA is required to make available to the public an annual report related to its compliance activities. In fulfillment of this requirement for 2022, the MSA published its Compliance Review 2021 on April 5, 2022.<sup>7</sup>

### **2.3.2 ISO rules compliance activities**

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

In 2021, the MSA addressed 462 ISO rules compliance matters.<sup>8</sup> Of these, 75 matters were addressed with a NSP, totalling \$129,250 in financial penalties. For additional information regarding the MSA's ISO rules compliance activities in 2021, see section 3 of the MSA's Compliance Review 2021.<sup>9</sup>

### **2.3.3 ARS compliance activities**

The purpose of ARS is to ensure the various entities involved in grid operation (generation operators/owners, transmission operators/owners, distribution system operators/owners, and the independent system operator) are doing their part by way of procedures, communications, coordination, training, and maintenance, among other practices, to support the reliability of the AIES. ARS apply to both market participants and the AESO. ARS are divided into two categories: Operations and Planning (O&P) and Critical Infrastructure Protection (CIP). The MSA's approach with respect to compliance with ARS is focused on promoting awareness of obligations and a proactive compliance stance. The MSA has established a process that, in conjunction with AUC rules, provides incentives for robust internal compliance programs, and self-reporting.

In 2021, the MSA addressed 80 O&P ARS compliance matters. Of these, 12 matters were addressed with a NSP, totalling \$22,000 in financial penalties. In 2021, the MSA addressed 294 CIP ARS compliance matters. Of these, 87 matters were addressed with a NSP, totalling

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<sup>7</sup> [Compliance Review 2021](#) (April 5, 2022)

<sup>8</sup> A compliance matter is considered to be addressed once a disposition has been issued.

<sup>9</sup> Compliance Review 2021 (April 5, 2022)

\$216,350. For additional information regarding the MSA's ARS compliance activities in 2021, see section 4 of the MSA's Compliance Review 2021.<sup>10</sup>

## **2.4 Red tape reduction**

The MSA completed the count of its regulatory requirements in December 2019, which represents a key metric specified as part of Alberta's red tape reduction program. All of these requirements existed within the MSA's Compliance Process. With the publication of the MSA's revised Compliance Process at the end of 2020, the MSA has reduced its red tape count by 58%.

The MSA also reduced red tape and uncertainty for market participants during the COVID-19 pandemic by issuing compliance waivers for related contraventions. These waivers were informed and guided by best practices from the North American Electric Reliability Corporation and, applicable to 2021, were issued on December 17, 2020,<sup>11</sup> February 25, 2021,<sup>12</sup> and May 25, 2021,<sup>13</sup> as the pandemic evolved.

## **3 FINANCIAL STATEMENTS**

Section 36(3) of the AUCA provides that the MSA must be managed so that on an annual basis no profit or loss results. To that end, the MSA's fiscal operations are managed in accordance with an annual budget approved by the Chair of the AUC and its revenue is obtained from market participants through a levy based on the approved budget and collected by the AESO and remitted monthly to the MSA. The MSA's audited financial statements for the year ended December 31, 2021, prepared by an independent auditor appointed by the MSA, prepared by an independent auditor appointed by the MSA follow. The format of the audited financial statements reflects accounting standards for not-for-profit organizations.

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<sup>10</sup> Compliance Review 2021 (April 5, 2022)

<sup>11</sup> MSA notice re [COVID-19 compliance update and extension to March 31, 2021](#) (December 17, 2020)

<sup>12</sup> MSA notice re [COVID-19 compliance update and extension to June 30, 2021](#) (February 25, 2021)

<sup>13</sup> MSA notice re [COVID-19 compliance update and extension to September 30, 2021](#) (May 25, 2021)

# **Market Surveillance Administrator**

Financial Statements  
**December 31, 2021**



## Independent auditor's report

To the Management of Market Surveillance Administrator

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### 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, 2021 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, 2021;
- the statement of operations and changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### 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.

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### 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.

PricewaterhouseCoopers LLP  
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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

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

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### **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  
April 27, 2022

# Market Surveillance Administrator

## Balance Sheet

As at December 31, 2021

	2021 \$	2020 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	1,720,161	1,506,197
Accounts receivable	74,042	-
Prepaid expenses and deposits	32,268	22,759
	<u>1,826,471</u>	<u>1,528,956</u>
<b>Capital assets</b> (note 3)	676,602	701,042
	<u>2,503,073</u>	<u>2,229,998</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	425,493	236,212
Current portion of deferred lease inducement	49,171	71,234
Deferred contributions (note 4)	1,553,830	1,401,658
	<u>2,028,494</u>	<u>1,709,104</u>
<b>Deferred lease inducement</b>	474,579	520,894
<b>Net Assets</b> (note 1)	<u>-</u>	<u>-</u>
	<u>2,503,073</u>	<u>2,229,998</u>
<b>Commitments</b> (note 5)		
<b>Contingencies</b> (Note 7)		

On Behalf of the Corporation



Derek Olmstead, Chief Executive Officer  
Market Surveillance Administrator



Larry Kram, General Counsel and Corporate Secretary  
Market Surveillance Administrator

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

**Market Surveillance Administrator**  
Statement of Operations and Changes in Net Assets  
For the year ended December 31, 2021

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	2021 \$	2020 \$
<b>Revenue</b>		
Contributions from the Alberta Electric System Operator (note 4)	3,599,023	4,178,185
Interest and other income	-	1,740
	<hr/> 3,599,023	<hr/> 4,179,925
<b>Expenses</b>		
Salaries and benefits	2,476,155	3,037,280
Consultants and audit	454,348	443,379
Operating, office and administrative	453,279	445,601
Amortization	140,031	126,910
Legal fees	75,210	126,755
	<hr/> 3,599,023	<hr/> 4,179,925
<b>Excess of revenue over expenses for the year</b>	-	-
<b>Net assets – Beginning of year</b>	<hr/> -	<hr/> -
<b>Net assets – End of year</b>	<hr/> <hr/> -	<hr/> <hr/> -

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



# Market Surveillance Administrator

## Statement of Cash Flows

For the year ended December 31, 2021

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	2021	2020
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenses for the year	-	-
Item not involving cash		
Amortization	140,031	126,910
Changes in non-cash working capital		
(Increase) decrease in accounts receivable	(74,042)	611,614
(Increase) decrease in prepaid expenses and deposits	(9,509)	12,471
Increase (decrease) in accounts payable and accrued liabilities	189,281	(581,098)
(Decrease) increase in deferred lease inducement	(68,378)	56,316
Increase in deferred contributions	152,172	859,944
	<hr/> 329,555	<hr/> 1,086,157
<b>Investing activities</b>		
Expenditures on capital assets	<hr/> (115,591)	<hr/> (136,500)
<b>Increase in cash during the year</b>	213,964	949,657
<b>Cash – Beginning of year</b>	<hr/> 1,506,197	<hr/> 556,540
<b>Cash – End of year</b>	<hr/> <u>1,720,161</u>	<hr/> <u>1,506,197</u>

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

# Market Surveillance Administrator

## Notes to Financial Statements

December 31, 2021

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### 1 Nature of business

Market Surveillance Administrator (the 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* (AUCA).

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

The MSA has a broad mandate including surveillance, investigation and enforcement to help ensure fair, efficient and openly competitive electricity and retail natural gas markets in Alberta. The MSA monitors the behaviour of market participants, the Alberta Electric System Operator (AESO), 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 markets and makes recommendations to the Department of Energy and other parties, where appropriate, toward the development and operation of fair, efficient and openly competitive markets.

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

### 2 Summary of significant accounting policies

#### Basis of preparation

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

#### Cash

Cash consists of cash held with chartered financial institutions.

#### Capital assets

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

Amortization is provided using the following methods and estimated lives:

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

# Market Surveillance Administrator

## Notes to Financial Statements

December 31, 2021

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

### Leases

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

The MSA does not have any leases that are classified as capital leases as at December 31, 2021.

### Income taxes

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

### Financial instruments

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

### Revenue recognition

The MSA follows the deferral method of accounting for contributions.

Consistent with the requirements of the AUCA that the MSA operate with no annual profit or loss, contributions from the AESO 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 AESO.

# Market Surveillance Administrator

## Notes to Financial Statements

December 31, 2021

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### Measurement uncertainty

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

### 3 Capital assets

			2021	2020
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Computer hardware	290,774	185,085	105,689	57,810
Computer software	99,155	78,453	20,702	1,801
Leasehold improvement	568,224	161,192	407,032	477,584
Furniture and equipment	396,153	252,974	143,179	163,847
	<u>1,354,306</u>	<u>677,704</u>	<u>676,602</u>	<u>701,042</u>

### 4 Deferred contributions

Contributions from the 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.

	2021	2020
	\$	\$
AESO		
Opening balance – January 1	1,401,659	541,714
Add: Contributions from February to December	3,464,055	4,723,215
Less: Revenue recognized in the year from AESO	<u>(3,599,023)</u>	<u>(4,178,185)</u>
	1,266,691	1,086,744
Contribution for January	<u>287,139</u>	<u>314,914</u>
	1,553,830	1,401,658
Closing balance – December 31	<u>1,553,830</u>	<u>1,401,658</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. These benefits will be amortized on a straight-line basis over the lease term.

# Market Surveillance Administrator

## Notes to Financial Statements

December 31, 2021

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Total lease costs are approximately as follows:

	\$
2022	150,319
2023	150,319
2024	150,319
2025	159,955
2026	173,445
2027	173,445
2028	173,445
2029	173,445
2030	101,176

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

### 6 Credit facility

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

### 7 Contingencies

The MSA is involved in claims arising in the normal course of business. In 2021, there were no such contingencies arising.

### 8 Related party

Prior to his appointment as Interim Administrator on April 22, 2020, Derek Olmstead was providing consulting services to the MSA. These consulting services ceased to be provided as of April 22, 2020. The value of the transactions paid for these consulting services in 2021 is \$nil (2020 – \$128,000 including GST). Effective September 11, 2020, Mr. Olmstead was appointed Administrator for a five-year term. Mr. Olmstead's compensation associated with his position as Administrator, including his employment contract, will be disclosed in the normal course with other MSA employees on the MSA's website in accordance with the requirements of the *Public Sector Compensation Transparency Act*. The next scheduled disclosure date is June 30, 2022.

### 9 Coronavirus pandemic (COVID-19)

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

# **Market Surveillance Administrator**

## **Notes to Financial Statements**

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On March 17, 2020, the MSA directed its staff to work from home. This direction remains in place. Management has assessed the financial impact of COVID-19 as at December 31, 2021, including the assessment of accrued liabilities, deferred contributions, deferred lease inducement and the timing of revenue recognition. Management did not identify any impact to its financial statements as at December 31, 2021.

The long-term impact of the pandemic on the MSA and the economy is not yet known and information surrounding the global economic impact of COVID-19 and the estimated length of the pandemic continues to evolve. It is not possible to estimate the results of future financial impacts of COVID-19 on the MSA subsequent to December 31, 2021.