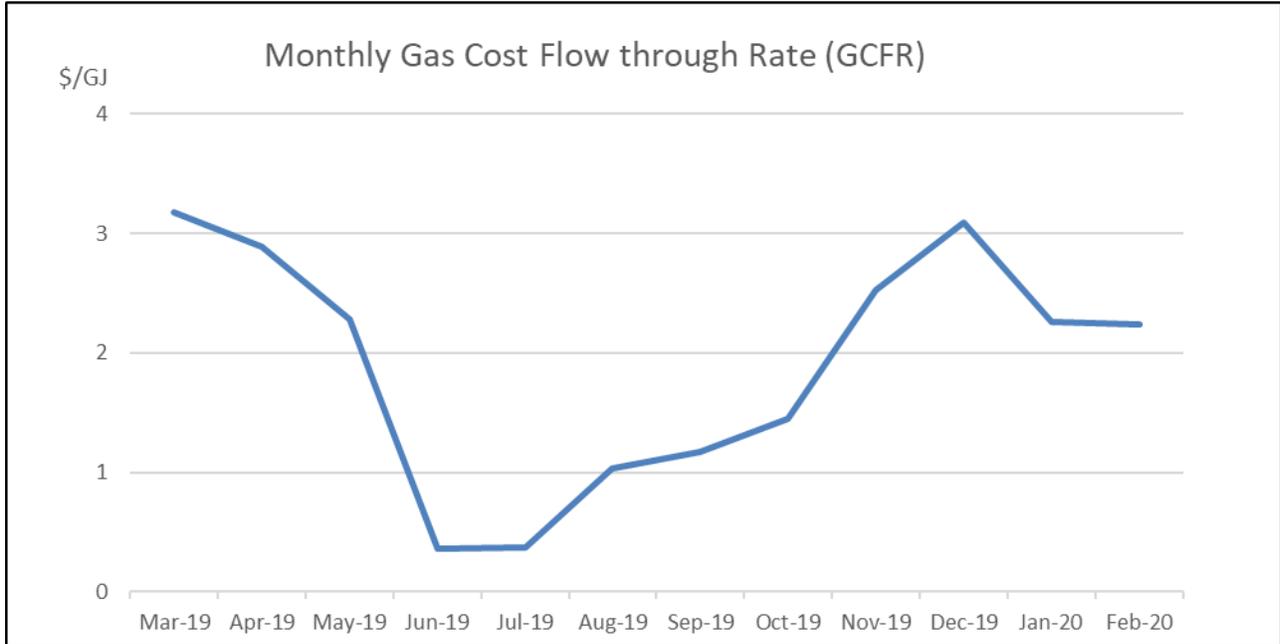


ENERGY PRICES AND MARKETS

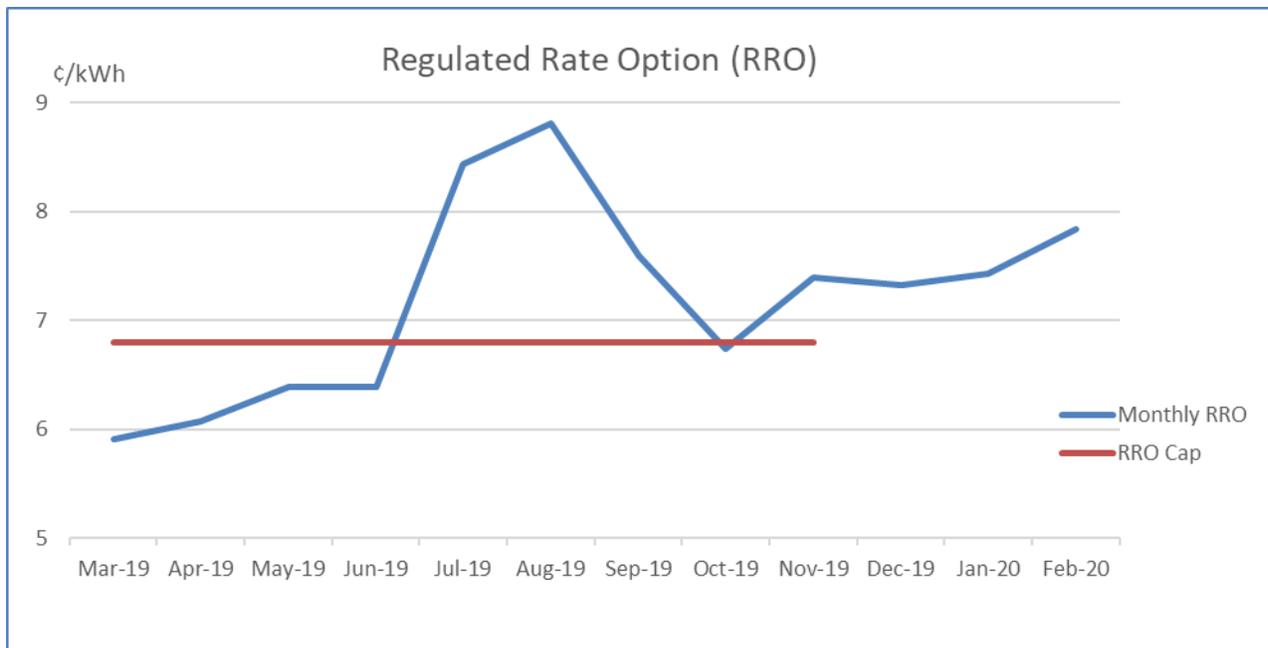
Natural Gas

The 2020 February gas cost flow-through rate (GCFR) was \$2.24 per gigajoule. Colder temperatures have largely been responsible for the price increase thus far in 2020. Natural gas costs for The City for 2019 were up 2.0 percent (\$191,000) relative to 2018, largely due to colder average temperatures resulting in higher consumption.



Electricity

The ENMAX regulated rate option (RRO) price for 2020 February was 7.84 cents per kilowatt-hour. The price cap of 6.8 cents per kilowatt-hour is no longer in effect as of 2019 December. Electricity costs for The City for 2019 were up 6.0 percent (\$4.8 million) relative to 2018, despite lower volumes, due to increased unit costs.



The month-to-date all-hours average power pool price for 2020 February 17 was 3.27 cents per kilowatt-hour. For reference, the all-hours average price for 2019 February was 10.94 cents per kilowatt-hour. Power pool prices are forecast to remain relatively stable for the remainder of 2020.

A new peak power consumption load was set for Alberta on 2020 January 14, with consumption hitting 11,698MW. The relentless cold the week of 12 through 17 January 2020 resulted in power prices reaching their market price cap of \$999.99 per MWh multiple times during that period.

UTILITY REGULATION UPDATE

Technology Innovation and Emissions Reduction (TIER) Regime established

To maintain provincial control over carbon pricing and revenues, the Alberta government has established its own carbon program for large emitters. Power plants – Alberta’s largest emitters and where most emission cuts are expected to occur – are assigned a single benchmark for the entire industry (0.37 t/MWh). Most other facilities, such as oilsands plants and concrete manufacturers, are assigned an individual carbon emissions benchmark based on past performance and are expected to reduce their emissions by 10 per cent below their benchmark during the first year and one per cent every year after that. Facilities with emissions above the benchmark have to pay at the current cost of carbon, or buy emission credits from facilities that have met and exceeded their emission reduction targets.

The federal government has confirmed that the TIER program is sufficient and will not be implementing a federal tax on Alberta industry. The federal government implemented its carbon tax on Alberta consumers effective 2020 January 1.

UTILITIES AND INDUSTRY DEVELOPMENTS

Carbon Equivalency

Environment and Climate Change Canada announced in 2019 December that Alberta's Technology Innovation and Emissions Reduction Regulation (TIER) met the federal government's stringency benchmark criteria for carbon-pollution pricing systems, for 2020, for the emission sources they cover. As a result, the federal output-based carbon-pricing system, the large industry portion of the backstop, will not go into effect in Alberta.

As in all other provinces and territories that have adopted their own price on carbon pollution, Alberta's TIER system will be subject to annual reviews to ensure it remains in compliance with the federal benchmark. The benchmark price rises to \$40 per tonne in 2021 and \$50 per tonne in 2022.

The federal price on pollution has two components: a fuel charge across the economy and a pricing system for heavy industrial sectors that face international competition. The equivalency relates to the pricing system for heavy industry. Alberta cancelled the province's carbon levy 2019 May. As a result, the federal fuel charge was applied to the general economy effective 2020 January 1 with all direct proceeds from the federal fuel charge going back to Albertans through a climate action incentive payment.

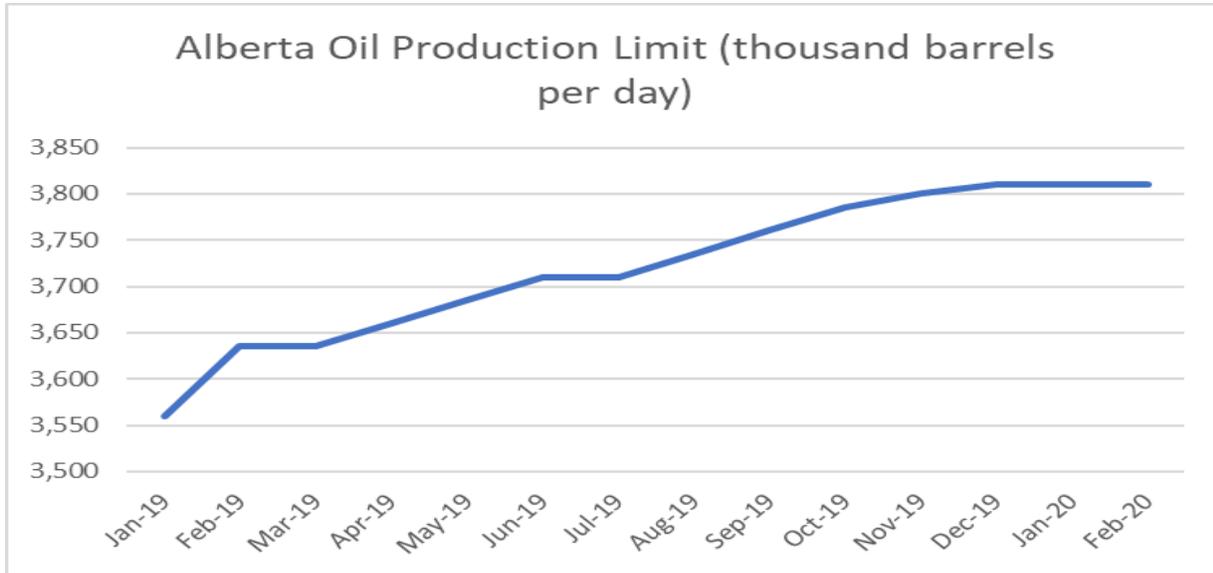
Alberta Carbon Court Challenge

Also, in 2019 December, Alberta's challenge of the federal carbon tax began. The province argued that the imposition of a federal tax undermines section 92A(1) of the constitution, which gives provinces jurisdiction over the development, conservation and management of natural resources and electricity generation within a province.

Ottawa argued that the peace, order and good government clause of the Constitution gives it the power to pass legislation on matters of national concern and establishing minimum national standards on greenhouse gas emissions "is a matter of national concern that only Parliament can address".

Oil Production curtailments stable

Beginning in 2019 January the Alberta government instituted an 8.7% or 325,000 barrel per day oil curtailment in an attempt to reduce the price differential between Western Canada Select (WCS) and West Texas Intermediate (WTI). The oil curtailments have been relaxed in tranches in 2019. Thus far in 2020 the curtailment level has not changed.



Currently about 100,000 barrels per day of oil remain curtailed. The oil curtailments have been extended to 2020 December 31 with possible earlier termination. In order to reduce the impact on small producers, the limits will apply to companies that produce more than 20,000 barrels per day rather than the original 10,000 barrel per day limit. It means that only 16, instead of 29, of the province’s more than 300 operators will be affected. However, effective 2019 November 8 new wells drilled for conventional oil will be exempt from the production limit. The government hopes that the exemption will encourage the drilling of new conventional oil wells, as well as, increase investment and create more jobs.

The International Energy Agency is forecasting an increase in oil demand in 2020, largely driven by strong demand in Asia. The increase in demand should support higher oil prices throughout 2020. It is important for Alberta as the oil industry remains the predominant component of the provincial economy. The Alberta Energy Regulator estimated around 87% of Alberta’s oil was exported to the United States in 2018. The United States will continue to rely on Alberta oil despite its growing domestic production.