

ENERGY PRICES AND MARKETS**Natural Gas**

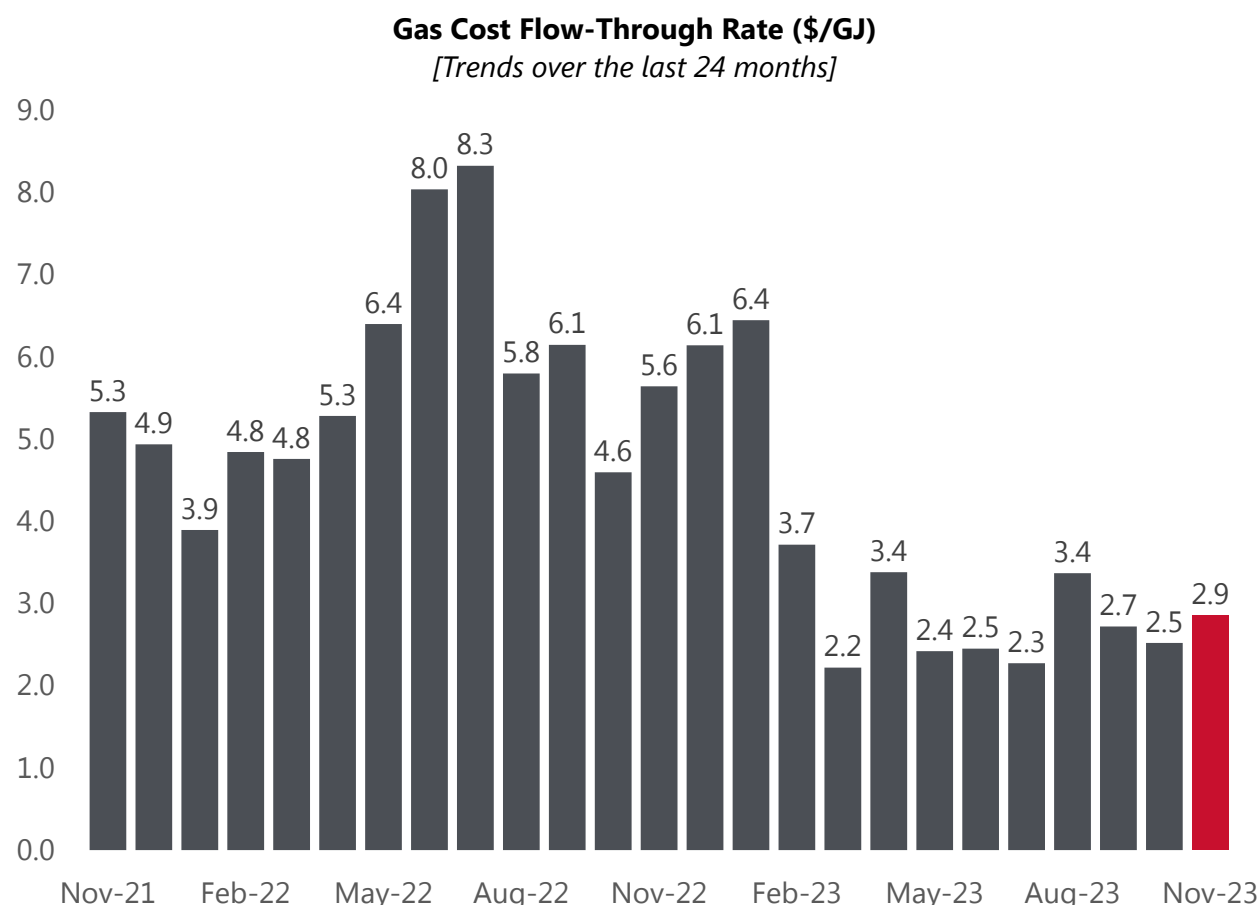
In Alberta, the regulated rate for natural gas is called the Gas Cost Flow-Through Rate. It fluctuates each month due to several factors. Notable ones include supply and demand and weather changes.

Prices have been stable recently (Figure 1): the 2023 November Gas Cost Flow-Through Rate was \$2.9 per gigajoule.

Natural gas prices in Alberta have declined this year due to a lack of available firm transport capacity out of Alberta into other more lucrative markets. In addition, periods of pipeline maintenance have even caused intra-day gas prices to go negative, forcing producers to choose between operating at a loss or shutting in wells.

The generally accepted natural gas industry price forecast has stable prices through the fall space heating season.

Figure 1: 24-Month Price Trend for the Monthly Gas Cost Flow-Through Rate

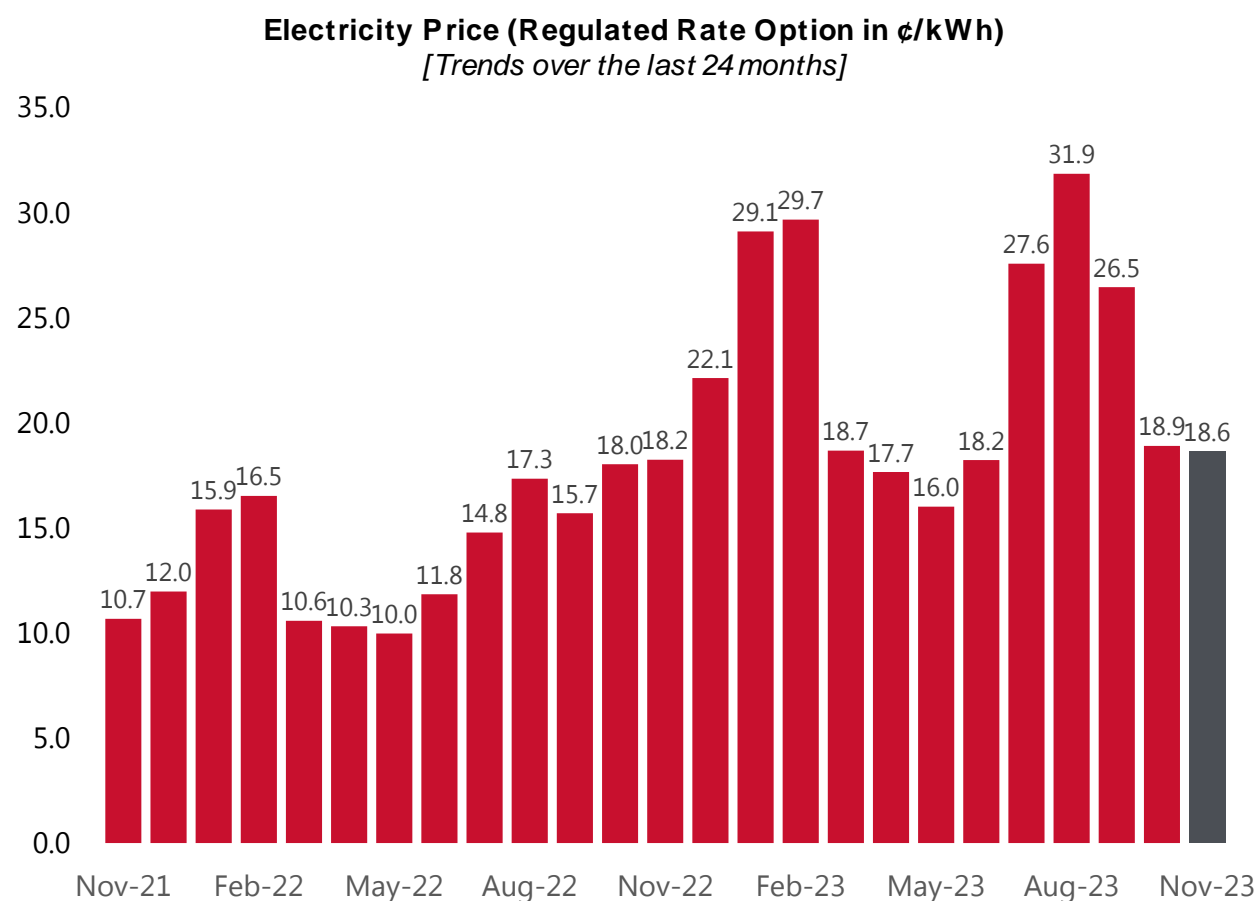


Electricity

A safety net ensures a baseline price for businesses and residents to fall back on in the case of high retail electricity rates or other unanticipated problems. Any business or residence using less than 250,000 kilowatt-hours per year can choose to pay the regulated rate.¹ This regulated electricity rate is the Regulated Rate Option. The Alberta Utilities Commission determines the Regulated Rate Option rate, which is highly influenced by the spot price for electricity and its volatility. The ENMAX Regulated Rate Option price for 2023 August was 31.9 cents per kilowatt-hour (Figure 2). This is a new record high for the Regulated Rate Option.

The monthly average wholesale price in 2023 November was 18.6 cents per kilowatt-hour. The difference between what customers pay and the wholesale price is due to the specific monthly approvals from the Alberta Utilities Commission. Each retailer submits detailed Regulated Rate Option monthly price applications, which are reviewed for their correlation to the wholesale market. The generally accepted power industry price forecast remains high for the rest of the year, averaging 14.8 cents per kilowatt-hour.

Figure 2: 24-Month Price Trend for the Regulated Rate Option



¹ The average home in Alberta uses about 7,200 kWh per year. See <https://gas.atco.com/en-ca/products-services-rates/rates-billing-energy-savings-tips/energy-101.html>

OTHER INDUSTRY DEVELOPMENTS

Alberta Government Fall 2023 Throne Speech

On 2023 October 30, the throne speech launching Alberta's 31st legislature outlined numerous provincial government priorities, and touched upon issues including affordability and electricity generation.

An affordability challenge that the province has pledged to tackle "head-on" is electricity prices, citing that they are too high and remarking that Alberta has among the most expensive electricity costs in the country.

The provincial government has pledged that over the coming months, a package of substantive reforms will ensure that Alberta's power grid remains affordable and reliable. Specifically, the province has pledged that these reforms will "ensure ample natural gas-generated electricity is brought onto the electricity grid to ensure prices are pushed down and the lights always stay on." The province added that this will ensure that Alberta's electricity market is "free from market manipulation" and described the existing Regulated Rate Option as providing ratepayers with "unaffordable electricity rates."

The province has also pledged taxpayer support for investments in carbon capture, utilization and storage, nuclear, geothermal and "other reliable sources of base load power." Alberta has stated that electricity will be reliable and affordable as it moves towards a carbon-neutral electrical grid by 2050.

Coastal GasLink Pipeline across Northern British Columbia Fully Installed

On 2023 October 30, TC Energy announced that the 670 km Coastal GasLink pipeline has been fully installed across Northern British Columbia from Dawson Creek to Kitimat. The project, which was planned more than a decade ago, is expected to carry natural gas from northeastern British Columbia to the West Coast. It will then be liquefied and shipped to Asia, opening up new markets for Canadian natural gas producers.

However, the LNG Canada export facility in Kitimat is still under construction, but is reportedly 85 per cent complete, with exports expected to commence by mid-decade. The completion of Coastal GasLink and the operation of the export facility in Kitimat is expected to allow Canadian natural gas production to potentially double in the coming years.

TransAlta Announces Acquisition of Heartland Generation

On 2023 November 02, TransAlta announced the acquisition of Heartland Generation from Energy Capital Partners for \$658 million. The transaction will see TransAlta acquire Heartland and its entire business operations in Alberta and British Columbia.

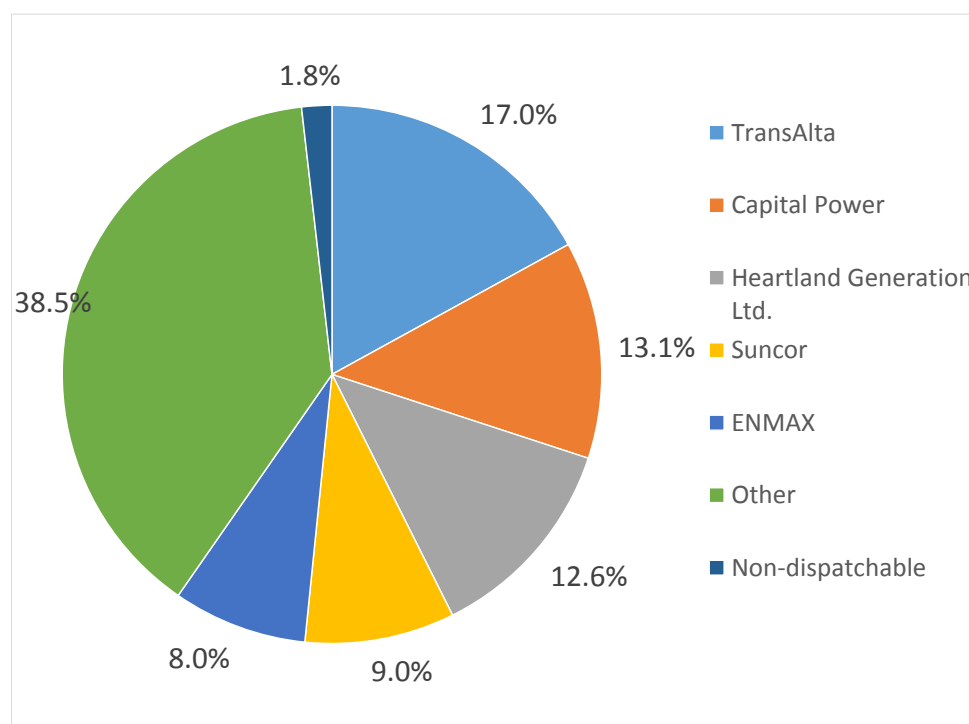
Energy Capital Partners is a privately held US-based investment firm that specializes in energy investments. Heartland Generation was created in 2019 following its acquisition of electricity generation assets from Canadian Utilities/ATCO. Heartland Generation presently consists of 10 partly or fully owned natural-gas fired and coal-fired generation assets, 9 of which are in Alberta. Two of these units, Battle River and Sheerness, historically important coal-fired plants, have been converted to natural gas-fired units.

In a media release, TransAlta CEO John Kousinioris was quoted as stating that “With this acquisition we are pleased to announce the addition of highly flexible and complementary assets to our Alberta portfolio. As the energy transition continues to drive new investment in renewables in the Province, our assessment is that the market will require low-cost, highly flexible and fast-responding generation, which will be supportive to grid reliability over the coming years. This transaction will support us in maintaining our competitive positioning and ensure we have a robust and diversified portfolio, which together with our marketing capabilities, can complement and support a cleaner grid.”

Prior to this transaction announcement, both TransAlta and Heartland Generation were key players in the Alberta generation market, with TransAlta being the largest, and Heartland Generation being the third largest. According to the Market Surveillance Administrator, as of 2023 March 31, TransAlta possessed 17.0 per cent of total offer control, and Heartland Generation possessing 12.6 per cent. The top five generators (TransAlta, Capital Power, Heartland Generation, Suncor and ENMAX) collectively hold 59.7 per cent of the total offer control and collectively wield tremendous control over the Alberta power market, possessing enhanced price setting capabilities. In accordance with section 5(5) of the *Fair, Efficient and Open Competition Regulation*, an electricity market participant shall not hold offer control in excess of 30 per cent of the total maximum capability of generating units in Alberta. Figure 3 below is a pie chart illustrating generation offer control of power generation units in Alberta as of 2023 March 31.

With TransAlta, the largest generator, increasing its market share and the expectation that only four generators will now possess the majority of total offer control in the Alberta power market, pricing matters and the exertion of oligopolistic market power may become an even bigger concern for Alberta electricity consumers following the acquisition of Heartland Generation by TransAlta.

Figure 3: Total Alberta Generation Offer Control by Company (as of 2023 March 31)



Source: Market Surveillance Administrator, [MSA Market Share Offer Control Data](#)