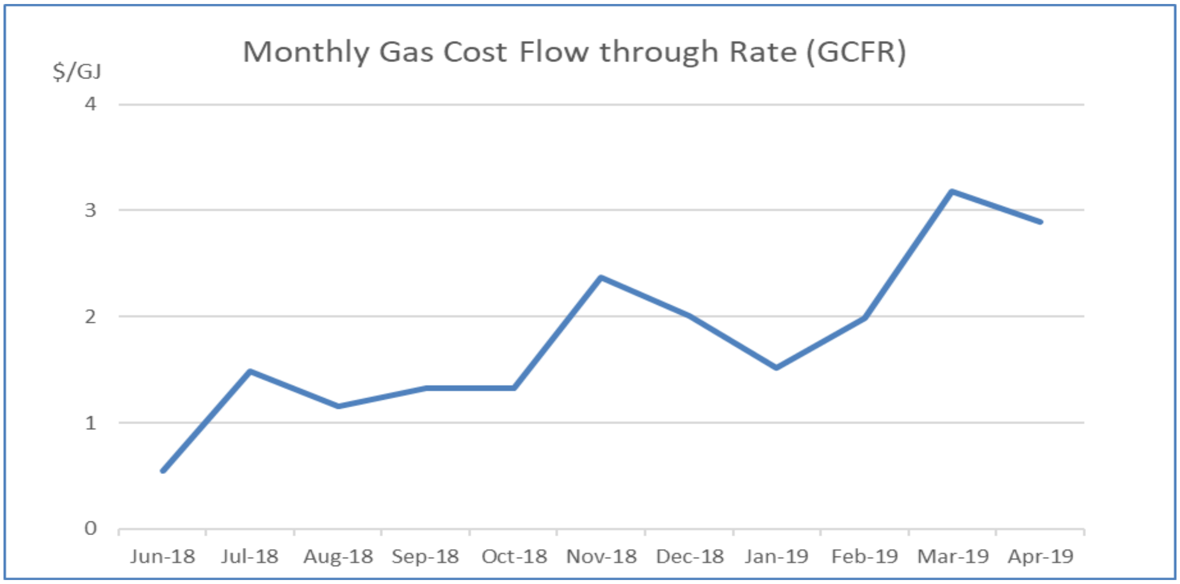
ENERGY PRICES AND MARKETS

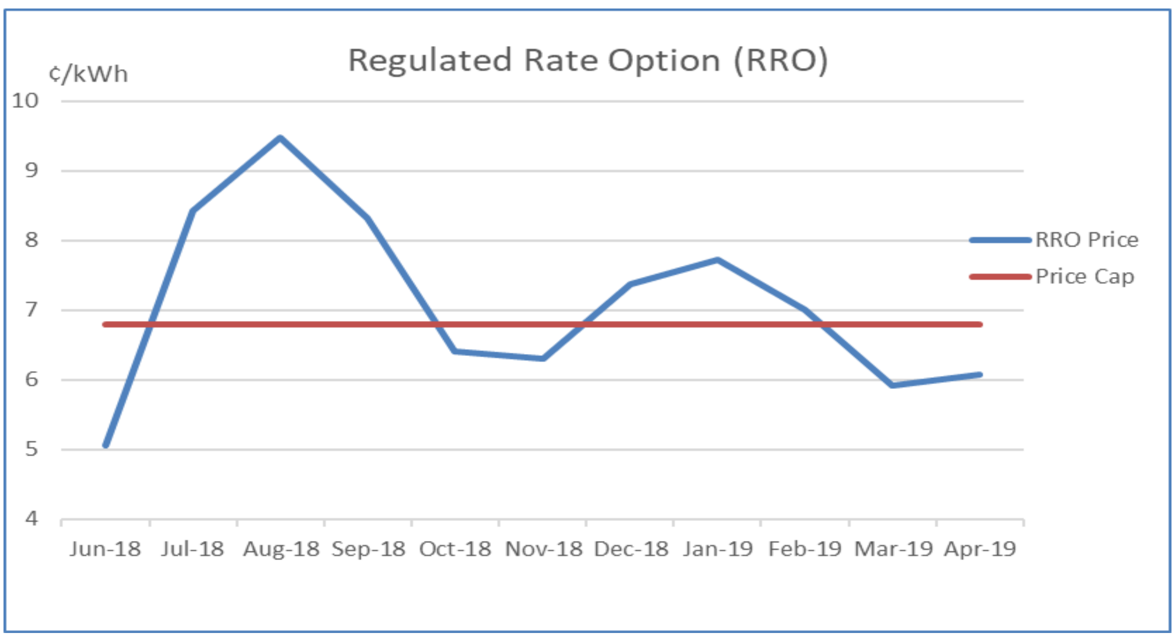
Natural Gas

The 2019 April gas cost flow-through rate (GCFR) was $2.89 per gigajoule. Natural gas market prices have decreased significantly thus far in April. As the GCFR is set largely based on the one-month forward market, the May GCFR rate should be much lower. For the week ending April 12, the Alberta daily price averaged $1.31 per gigajoule.



Electricity

The ENMAX regulated rate option (RRO) in 2019 April was 6.07 cents per kilowatt hour ($60.67 per megawatt hour).



The RRO has surpassed the Government of Alberta rate cap (which took effect 2017 June 1) of 6.8 cents seven times beginning in April of 2018. The provincial government protects RRO customers at 6.8 cents per kilowatt hour and pays the difference, to the utilities, using funds collected through its carbon levy. Customers with a retail contract such as ENMAX's Easymax will not benefit from the rate cap. The cost to Alberta taxpayers of the rate cap thus far is estimated at $45 – $55 million since its inception. The incoming United Conservative Party (UCP) provincial government has not communicated on whether or not it will cancel this rate cap.

Power prices in April have decreased relative to the first quarter of 2019. The month-to-date all-hours average price (as of 2019 April 15) was 4.15 cents per kilowatt hour. For reference, the prices for all of 2018 April averaged 4.06 cents per kilowatt hour.

Oil Price Spread

The Notice of Motion, Standing Up for Canada's Responsible Energy Industry (C2018-1448), discussed at the 2018 December 17 regular meeting of Council, directed Administration to develop a strategy for The City to advocate for improved market access on behalf of Canada's responsible energy industry. Intergvernmental and Corporate Strategy prepared a report on this matter for the March IGA Committee meeting. The discussion acknowledged the role of the oil price discount and additional background information on the oil price discount is available below.

Western Canada Select (WCS) is the most significant commercial stream of heavy oil in Canada. It includes:

- Non-upgraded bitumen produced from the oil sands in Alberta;
- Twenty (20) heavy conventional oil streams produced in Western Canada;
- Upgraded bitumen, also known as light synthetic crude oil (SCO) usually from mining facilities; and
- Diluent or condensate to meet pipeline viscosity requirements for transportation.

West Texas Intermediate (WTI) is one of the three primary benchmarks (WTI, Brent, Dubai) frequently used as a reference price for buyers and sellers of crude oil around the world. Similar to WCS, WTI is a blend of several U.S. domestic streams of sweet light crude oils.

Production of most of the WTI streams is in landlocked regions of the United States, and collection is at facilities in Cushing, Oklahoma. Subsequently, there is oil shipment via pipeline to the Midwest and Gulf Coast for refining, sale and transport to global markets.

The differential between WCS and WTI is due to several factors including:

- increased production by Canadian energy companies;
- limited pipeline capacity to ship WCS to the United States market; and
- a lack of access to international markets other than the United States.

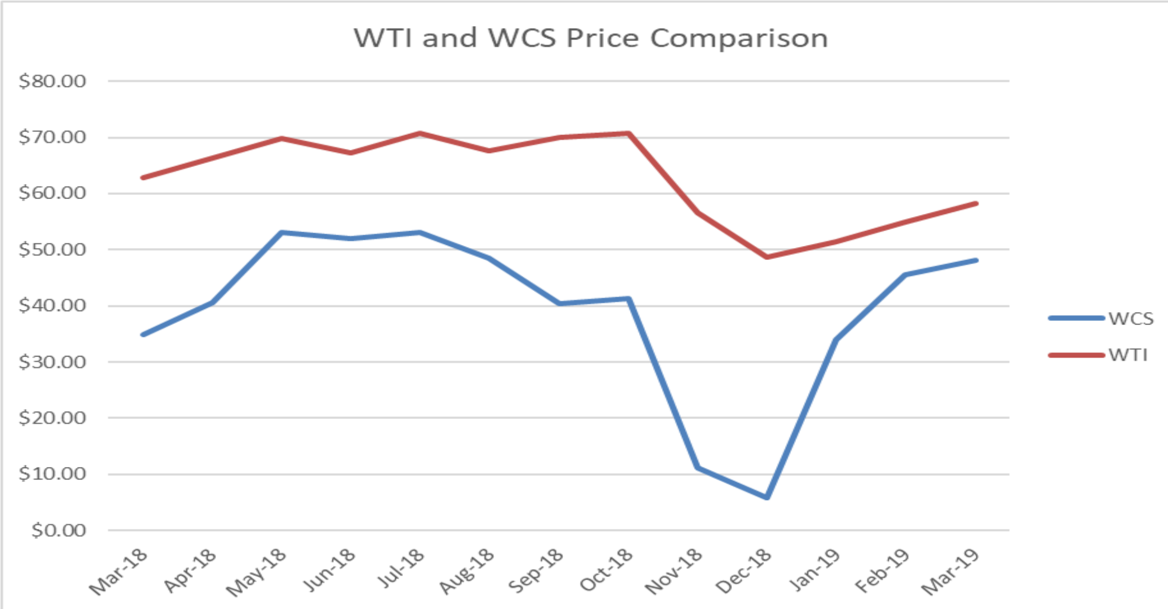
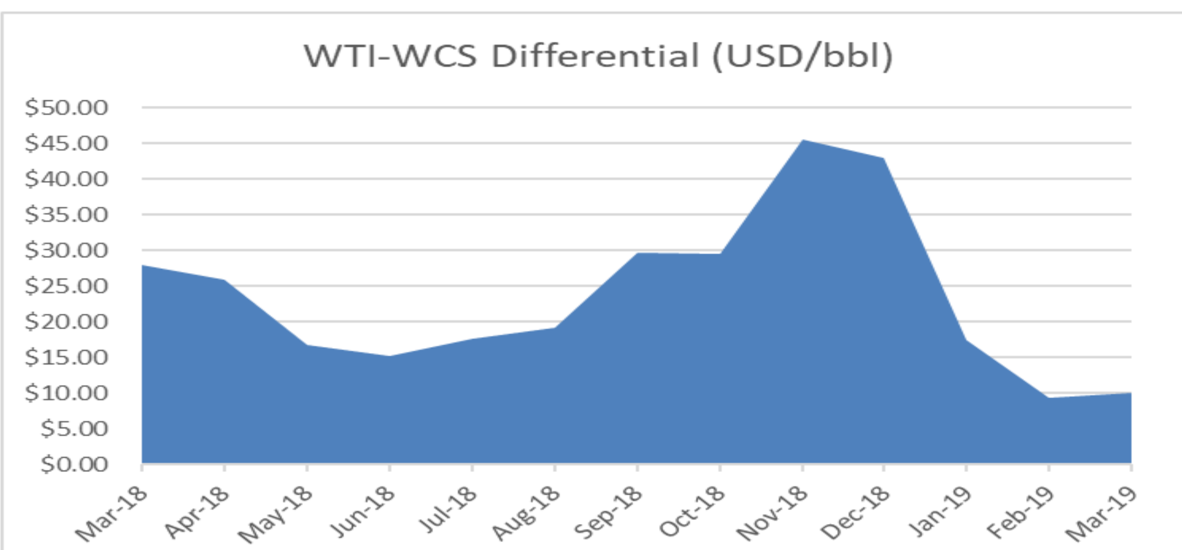


*Chart data from www.gljpc.com/price-charts
**WTI and WCS monthly prices are set based on the weighted average of all trades that occur in that month.

The United States buys around 98 per cent of the crude oil Canada sells. In late 2018 Canadian producers had to sell their product at a vastly discounted price primarily due to a lack of export capacity. Over the weeks when a significant discount occurred, many oil companies suffered substantial losses. Royalty payments to the provincial government declined substantially too. Interestingly, oil companies such as Imperial Oil, that can refine WCS oil and sell the refined product, have natural protection or hedge against the large differential.

The Government of Alberta has estimated that with the recent record-setting price differential (U.S. $55 on 2018 October 12), the lost revenue was between $80 and $100 million a day at the peak. The price differential has narrowed recently, due primarily to the Alberta government's oil curtailment by 8.7 per cent (325,000 barrels/day) which began on 2019 January 1.



UTILITY REGULATION

Election of United Conservative party (UCP)

Several policy changes to the energy and utilities sector could occur soon due to the results of the provincial election on 2019 April 16.

Carbon tax – The first bill for the new government is expected to be a repeal of the carbon tax. The UCP also stated they would amend the *Alberta Taxpayer Protection Act* to require a referendum before any carbon or sales tax can be in introduced in the future. Work is currently underway to determine what impact this change will have on the City. For reference, the City paid an estimated $6.4 million in carbon taxes on associated fuels in 2018.

The capacity market for electricity – The UCP platform states that a consultation would occur within 90 days on whether to proceed with the capacity market. It is unclear at this time what sort of consultation the new government has planned.

Regulatory changes to stimulate the oil industry – The UCP has identified several policy changes designed to help the oil and gas industry in Alberta. Highlights include;

- Intervention in all National Energy Board hearings that affect Alberta oil and gas.
- Appoint a new Board of Directors to the Alberta Energy Regulator with a focus on improving well licensing timelines.
- Establishment of an energy “war” room designed to respond to anti-oil and gas rhetoric.

Building Pipelines – The UCP has identified the two stalled pipelines projects (Keystone XL and Trans Mountain) as priorities. The new government has committed to the following actions to help get pipelines built.

- File a constitutional challenge to Bill C-69 (Impact Assessment Act) should it become law.
- Institute “Turn off the Taps” legislation for other provinces (specifically British Columbia). This legislation would create a licensing scheme whereby Alberta producers would have to apply for a licence to provide BC with bitumen. The Alberta government would have the ability to deny these licenses. Most of the gasoline consumed in BC comes from Alberta, primarily delivered through the Trans Mountain Pipeline.