Alberta’s Electricity-Generation Markets: The Alternating Currents of Governmental Regulation

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Introduction

On July 26, 2019, Alberta's newly-formed government announced their intention to return to an energy-only electricity market.[1] The announcement signalled the end of the previous government's multi-year transition of the electricity-generation sector to a capacity market model. The reversal comes as part of a broader public policy shift away from the previous government's focus on its Climate Action Plan, which included a phase-out of coal, subsidies for renewable electricity generation, and a transition to the capacity market.[2]

As part of the July 26 announcement, Alberta's Energy Minister indicated that legislation and regulations will soon be introduced to reverse the considerable changes implemented under the Climate Action Plan. However, details outlining this reversal are scarce. Uncertainty remains regarding the form and extent of legislative repeal, and whether measures will be taken to address other macro shifts in the electricity markets. Especially pertinent are changes stemming from the federal government's phase out of coal-fired electricity generation by 2030.

Background and Regulation

Alberta's transition to a deregulated electricity market in 1996, electricity generators have enjoyed considerable autonomy in setting generation levels and reliability standards.[3] Until recently, the *Electric Utilities Act* (the Act)[4] codified the government's hands-off approach to the electricity markets, which left generators free to adjust production according to market forces. Various organizations, including the Alberta Electric System Operator (AESO), the organization responsible for managing and operating the provincial power grid, have indicated that Alberta's energy-only, free market approach has served Alberta well.[5] Investment in electricity supply has largely matched Alberta's growing energy demands.[6]

In 2015, along with a change in provincial government, attention has increasingly focused on reducing carbon emissions. The following years saw sweeping changes to Alberta's public policies, including the enactment of the Climate Leadership Plan, legislated reductions in carbon emissions with corresponding renewable energy grants, and a mandatory phasing-out of coal.[7] However, these projected changes to the mix of generation fuels presented capacity and reliability issues for Alberta's electricity grid. For instance, the AESO and others suggested that renewable energy generation cannot replace predictable generation sources as the intermittent nature of renewables cannot be relied on to produce when demand is high. The result is that renewables are only able to supplement conventional sources, and cannot replace them. When renewables produce, the market is oversupplied. If renewables do not produce, conventional sources must be present to pick up the slack. The result is an oversupplied market, and a disincentive for conventional generators to maintain intermittently-used (and purchased) capacity.[8]

This issue was likely to be magnified by the Climate Leadership Plan's rapid shift to a heavy reliance on renewable energy. An inevitable capacity gap, and the possible weakening of grid reliability become real considerations for regulators.[9]

The AESO responded by reviewing the current and future supply and mix of electricity, coming to the conclusion that with increased renewables the energy-only market was unlikely to efficiently incentivize sufficient generation supply. On October 3, 2016, in response to these findings, the AESO recommended that Alberta rapidly move to a capacity market.[10]

The government responded quickly. By the end of 2018, Bill 13, *An Act to Secure Alberta's Electricity Future* (Bill 13) was passed, laying the groundwork for the new market.[11] Bill 13 represented a seismic shift to the regulatory landscape in Alberta, altering or affecting the interpretation of at least seven other acts and various corresponding regulations. The AESO developed and filed the first set of rules required for completing the market transition, and expected to receive approval from the Alberta Utilities Commission (AUC) by July 31, 2019.[12]

Following the recent change in government, Alberta's electricity markets again face uncertainty. On July 26, 2019, following a review, the Alberta Ministry of Energy announced that Alberta would be returning to its energy-only market and that legislative and regulatory reversals would follow shortly.[13] These moves aligned with other related policy shifts including the cancellation of the "carbon tax" and the Renewable Energy Program which incentivized green electricity generation through subsidies funded by the carbon tax.

Uncertainty Remains

The Alberta Minister of Energy has indicated that "things have changed", allowing for the return to an energy-only market.[14] There is little doubt that the shift away from a provincial carbon tax and its corresponding subsidies for renewable energy represent a seismic shift in the market. However, some points remain unclear.

Firstly, it is unclear to what extent the changes codified in Bill 13 will be repealed. Details on this matter are scarce. An examination of the current government's election

platform does not suggest that an outright repeal is the ultimate goal, leaving room for more legislative uncertainty in the near future.[15]

Secondly, the federal government appears firm in their resolve to continue with its forced phase-out of coal. While the current provincial government relaxed the cost on carbon for large emitters and slowed provincial coal phase-out, the federal government has also legislated a national coal phase-out by 2030.[16] The corresponding federal regulations clearly target Alberta's relatively large share of coal powered electricity generation, projecting the closure of six generation plants as a result of the federal phase out, six due to the (now repealed) provincial phase out, and the final six due to conversions to natural gas generation.[17] Tension arises as these projections are based on past assumptions that Alberta was both transitioning to a capacity market, and that the Climate Action Plan remained in place.

The federal regulatory impact statement directly concedes that the phase-out will cause higher electricity costs for consumers, but does not mention the impact this will have on supply and demand in Alberta's energy-only market. As up to two thirds of Alberta's power generation may be legislated into obsolescence, it can be safely assumed that electricity markets are facing considerable upheaval. It remains to be seen whether the federal government will afford Alberta time to assess options for protecting the free market system in the context its phase out of coal.

Thirdly, new reports suggest that at least some renewable energy generation has reached efficiency levels where their implementation is economically viable in Alberta, even in under energy-only conditions.[18] The federal push for reduced coal generation could make room for more renewables. However, it is unclear how reliability issues will be addressed in light of renewable intermittency.

Lastly, in the near term, concerns raised by the AESO appear to have gone unaddressed in the announcement to repeal Bill 13. As renewables remain unpredictable due to their intermittent nature, the AESO suggests that overall power pool prices will become depressed with their increased use. As consistent and predictable generation sources are required to pick up the slack when renewables are not contributing, the AESO suggests that renewable generation is truly ancillary to the grid's capacity needs. It remains to be seen whether the government will address this market distortion before capacity and reliability issues arise.

The reversal of Bill 13 appears to provide certainty for various market players by reverting back to an electricity market that is well understood in Alberta. However, all eyes will be on both the provincial government's approach to legislative repeal, and the federal government's legislated phase-out of coal-powered generation.

[1] Alberta Energy, "Restoring certainty in the electricity system" (24 July 2019).

[2] Alberta, *Climate Leadership Plan* (Edmonton: June 2018).

[3] Charles River Associates, "The Economic Foundations of Capacity Markets" (2 June 2017) at 32 .

[4] *Electricity Utilities Act*, RSA 2000, c E-5 [Repealed].

[5] Alberta Electric System Operator, "Alberta's Wholesale Electricity Market Transition Recommendation" (3 October 2016) at 5 .

[6] *Ibid*.

[7] Climate Leadership Plan, *supra* note 2.

[8] Capacity Markets, *supra* note 3 at 21-33.

[9] Capacity Markets, *supra* note 3.

[10] Climate Leadership Plan, *supra* note 7.

[11] Bill 13, *An Act to Secure Alberta's Electricity Future, 2018,* Fourth Session, 29th Leg, 2018 (assented to 11 June 2018) SA 2018 c10.

[12] Alberta Utilities Commission, *Notice – Notice of Commission Initiated Proceeding*: *Application 2357-A001* (23 July 2018) Alberta Utilities Commission.

[13] Alberta Energy, "Electricity market review: Minister Savage" (14 June 2019), ; Press Release June 24, 2019, *supra* note 1.

[14] *Ibid*.

[15] United Conservatives*, Alberta Strong & Free – Getting Alberta Back to Work* (Undated) .

[16] Government of Canada, "Regulations Amending the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Regulations: SOR/2018-263" Canada Gazette, Part II, Volume 152, Number 25, .

[17] *Ibid*.

[18] Calgary Herald, "UCP's decision to stick with status quo on electricity market a boon for renewables, companies say" (25 July 2019) .

By

Jordan Hulecki, Jesse Vreeken

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Centennial Place, East Tower
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Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
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Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
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