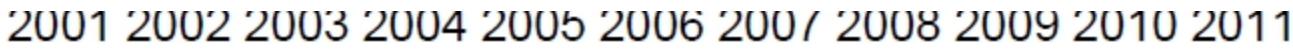
Like Ontario Experienced, Alberta's Electricity Prices will become a Political Issue in 2018

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Albertans will go to the polls on a date between March 1 and May 31, 2019 according to its fixed-election-date legislation. But, already, AlbertaPowerMarket.com is seeing articles in newspapers, debates on social media, questions being asked in the Alberta Legislature and our industrial clients ask us about the rising price of electricity in Alberta. This is because electricity prices have already begun and are expected to continue to increase significantly, at least in percentage terms, in Alberta in 2018, and Alberta's opposition, the United Conservative Party (**UCP**), and its supporters will make that increase a political issue leading up to next year's provincial election.

It is important to note from the outset of this discussion that Alberta's electricity prices will be rising from unsustainable historically low levels. As the quarterly pool price chart below from 2001 through to the end of the third quarter of 2017 shows, Alberta's wholesale pool price for electricity plummeted in 2015, bottomed out and averaged about $17/MWh in 2016, and then bounced along in the low $20/MWh range, posting a $22.19/MWh average for 2017. This is a far cry from the $50 to $60/MWh average pool prices that have existed in Alberta's electricity market since it was created in 2001 and, more importantly, it is a far cry from the long-term cost to construct and operate a generation project of any fuel type.



There are a number of factors that caused this recent period of historic low prices, including that there was excess supply (16,300 MW of installed generation but only a peak load in the period of 11,450 MW), low natural gas prices, and lower load growth/electricity demand in this period due to the downturn in the oil industry, a key driver of the Alberta economy and electricity consumption. Also, according to the Independent Power Producers Society of Alberta, electricity prices were further suppressed in this period because the Balancing Pool (a government entity) did not act in a commercial manner and, instead, chose to bid over 4000 MW of coal generation into Alberta's competitive market at its variable cost of generation without recovering the capital costs of the coal plants.

So, what is changing in 2018 that is going to increase Alberta's electricity prices? First, beginning on January 1 of this year Alberta enacted the Carbon Competitiveness

Incentive Regulation. It changed the way in which Alberta calculates the carbon levy that it charges Alberta's thermal electricity generators. AlbertaPowerMarket.com first told you about this development in March of last year. The new output based calculation significantly increases the carbon levy on coal generation. This resulting increase in the variable cost of Alberta's coal generation will cause an increase in pool prices in 2018. Second, as a consequence of the expiry of the Sundance A Power Purchase Arrangement (PPA) and the early termination by the Balancing Pool of the Sundance B and C PPAs, TransAlta retired Sundance Unit 1 and mothballed Sundance Unit 2 on January 1, and will mothball Sundance Units 3 and 5 at the end of March of this year. In total, this will remove over 1300 MW of coal generation from Alberta's generation supply in 2018 and that will cause more upward pressure on pool prices. Third, though Sundance Units 4 and 6 will not be mothballed, the bidding of this 800 MW of coal generation will be controlled by TransAlta, and not the Balancing Pool, after March 31. TransAlta is expected to strategically bid that power into the electricity market at more than its variable cost, again causing pool prices to rise. Finally, we can throw in rising load growth/electricity demand in Alberta due to improving world oil prices as another reason why Alberta's electricity prices will rise in 2018.

By how much are Alberta's electricity prices expected to rise in 2018? Capital Power presented a chart at its latest investor day in December that showed forward 2018 pool prices averaging $45/MWh. TransAlta provided similar information to its investors. Finally, EDC Associates, a leading electricity consulting firm in Alberta, predicts that Alberta's electricity prices will also rise over 2018, and average above $50/MWh for the year. Therefore, based on those expert views, depending on one's political affiliation, the answer to the question of how much are electricity prices going to rise in 2018 is either that "they will more than double" or "they will normalize". Plus, remember, the EDC Associates' number is an annual average and the pool price for electricity changes by the hour, so there may be weeks during 2018 when the UCP and its supporters will be able to talk about a "tripling" of electricity prices in Alberta.

The UCP and its supporters will look to blame the Notley Government for electricity price increases this year, especially the portion caused by the increase in the carbon levies for coal generation as a result of the change to an output based calculation. They will also point to the $3.10/MWh Balancing Pool charge (up from a $1.10/MWh charge in 2017 and that actually used to be a credit for consumers) that electricity consumers will pay in 2018. A charge to consumers that arises as a result of the termination of a number of PPAs by buyers in 2016 due to the Notley Government's increase in carbon levies on coal generation.

The Notley Government and its supporters, on the other hand, will be quick to point to the record setting (for Canada) low prices that it got in the REP Round 1 results announced in December for new renewable power projects. See to read our recent posting. They will also likely take the position that electricity prices fell after Premier Notley took office, and have been lower during her term in office than when the successors to the UCP governed Alberta. The Notley Government will also remind voters that it dealt with electricity price increase fears back in 2016, when it passed legislation that capped (read government subsidy) the price of electricity for residential and small commercial customers at 6.8 cents per kWh. The funny thing is that the 6.8 cent cap was put in place in 2016 mainly to address consumer fears that new renewable power costs were going to come in at astronomical prices, and not at the $37/MWh average price achieved in REP Round 1.

Like Ontario experienced, AlbertaPowerMarket.com expects the politics of electricity price increases to creep into the discussion in 2018. It will become a political issue. We will continue to monitor electricity pool prices, and will advise you of any changes in our thinking. We will also advise you later this year how the Alberta election in 2019 is shaping up, and how its results might impact the electricity market here in Alberta.

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