

**Fall 2018 Public Accounts
Ministry of Energy
November 6, 2018 Proceedings**

WRITTEN RESPONSE

Question 1 [PA-753]

Mr. Panda: I'm referring to page 105 of the report. On April 13, 2017, the Balancing Pool received a notice of investigation and request for information from the MSA. So when was the first complaint filed that triggered this investigation?

Written response:

Mr. Doll from the Market Surveillance Administrator made the correction that the first complaint was filed in early 2017.

Question 2 [PA-755]

Ms. Renaud: Thank you. I'm going to switch to page 55 of the annual report. You talk about the renewable electricity program again. We've all heard that the first round of the renewable electricity program was record breaking in terms of low-cost renewable energy procurement. What were the key factors that brought this success to our first renewable energy auction?

Written response:

Round one of the Renewable Electricity Program delivered nearly 600 megawatts of wind generation at a weighted average bid price of \$37 per megawatt-hour, a new record in Canada for the lowest renewable electricity pricing.

The program was designed by learning from the experiences of other jurisdictions both within Canada and internationally, with the clear finding that carefully crafted competitions drive the best cost outcomes. As a result, Alberta was also very deliberate in developing terms that would allow projects to have access to very competitive financing rates, a key factor in the cost of renewable projects that will run for decades.

Question 3 [PA-757]

Mr. Barnes: Okay. Do you have any estimations? Do you have any way of tracking what rates will be after the capacity market is fully implemented and whether these policies will meet your targets and your goals?

Written response:

The capacity cost will not be a new cost to consumers. In the current energy-only market, generators recover all their costs in the price of electricity. The capacity market splits that cost into two streams: capacity and electricity.

In this new framework:

- The capacity cost is associated with having enough generation facilities available to meet demand at any given point during the year; and
- The electricity cost is associated with the production of electricity at a specific time.

The capacity cost will be determined each year in the capacity auction market while the cost of electricity will continue to be determined in the energy spot market.

Energy prices following the full implementation of the capacity market are expected to be influenced by a number of other factors, such as natural gas prices, costs of carbon emissions, demand and supply conditions for electricity, and additional variable generation (wind and solar power).

The department does not set electricity price forecasts. EDC Associates is an Alberta-based, electricity market analyst that regularly provides price forecasts for Alberta's electricity market. The most recent forecast published by EDC Associates shows the expectation that the combined cost of energy plus capacity under the capacity market framework will remain consistent with historical price levels in the Alberta energy-only market.

Following the introduction of the new market arrangements, the department will be active in monitoring wholesale prices in line with current practice.

Question 4 [PA-759]

Mr. Clark: Is the system set up in its optimal way? We have these groups that are arm's-length to some degree. It seems the MSA has total independence, but the Balancing Pool has this odd legislative touchpoint, I guess, with government, which seems to open a pretty big avenue for the risk of political interference. Is the system designed optimally?

Written response:

The regulatory functions of Alberta's electricity sector are delivered by four electricity agencies (the Alberta Utilities Commission, the Alberta Electric System Operator, the Market Surveillance Administrator, and the Balancing Pool). Each of these entities is granted specific powers by the legislature, and may not carry out functions outside of this.

Like all public agencies, the Balancing Pool is subject to the *Alberta Public Agencies Governance Act*. Section 12 outlines that every public agency shall participate with its responsible minister in setting long-term objectives and short-term targets, if any.

The Balancing Pool interacts with the department in carrying out its legislative mandate. This includes establishing goals that are consistent with legislation and government objectives. The Balancing Pool is also accountable to the minister to ensure that it fulfills its mandate and for carrying out the roles and responsibilities assigned to it under the statutes and applicable Government of Alberta policies.

Question 5 [PA-761]

Mr. Nielsen: Well, thank you, Mr. Chair. I hope you guys don't mind if I just shift gears here a little bit and go down the topic of liability management and the Orphan Well Association. If I can maybe direct your attention towards page 44 of the annual report. You reported on a loan to the Orphan Well Association. I'm just wondering how many sites have been cleaned up, or reclaimed, from this loan. I'm just wondering also how Albertans contract the funding issued on a number of sites that are undergoing cleanup right now, and maybe if you could allude to how you are making any decisions last fiscal period on setting up cleanup targets and timelines around those.

Response provided during proceeding:

As of August 15, 2018, 110 well abandonments and the reclamation of 48 sites has been completed as a result of the orphan well loan program. Additional preparatory work, including 4,824 inspections, well access construction operations, and 35 phase 2 environmental site assessments have also been completed and will set the groundwork for increasing numbers of abandonment, remediation, and reclamation projects in the future. The OWA estimates that the orphan well loan program will be used in the next three years to decommission 1,700 wells and 1,500 pipelines as well as reclaim 1,200 sites.

Written response:

The OWA is an independent organization that operates under delegated authority of the Alberta Energy Regulator. The OWA works with consulting firms and contracting companies with experience in the upstream oil and gas industry and a track record of doing quality work. Interested contractors reach out to the OWA directly for work. As noted on their website, the OWA's Request for Information for prospective companies is closed and the OWA is not accepting responses at this time, as there are more qualified companies than there is orphan work available. The Request for Information for prospective companies can be found on the OWA's website, orphanwell.ca, under the "OWA Contract Work" page and can be monitored for when it may reopen.

Government is working with the OWA to monitor progress on the work completed to reduce its inventory. As part of the OWA loan agreement, the OWA is required to report to government on its progress. Albertans can find updated information on the OWA's inventory on its public website, www.orphanwell.ca where regular updates are provided throughout the year on its inventory.

The OWA has been working behind the scenes to prioritize work, in addition to its regular activities funded by the annual levy. It is difficult to set specific clean up targets as the sites in the OWA's inventory are diverse, with some being more costly than others to reclaim. Oftentimes, the total cost of addressing a site will not be known until the work commences.

No specific targets have been directed by government, however, the loan agreement requires that the OWA report quarterly to government on progress of work using the loan dollars. This allows government to review progress to ensure work is being done prior to issuing subsequent installments of the loan. We estimate the \$235 million loan will reduce the OWA's inventory by about one-third.

Question 6 [PA-761]

Dr. Swann: One consultant has indicated that roughly 85 per cent of all wells in Alberta are marginal producers. We're talking about tens of thousands of potential abandonments in the coming years. How are we going to deal with that, with that Orphan Well Association that is so strapped for cash?

Written response:

Alberta Energy, Alberta Environment and Parks, and the Alberta Energy Regulator (AER) are actively looking for ways to make sure we are addressing full life cycle management of energy development and reducing the number of inactive wells and facilities to minimize the risk of increases to the orphan well inventory. Our goal is to ensure that Albertans are protected from

the financial and environmental risks associated with energy development while maintaining our competitiveness.

Our government adheres to the polluter-pays principle. It is the expectation of Albertans and of our government that industry should continue paying the costs related to cleaning up and decommissioning wells and associated infrastructure. We are committed to ensuring the liabilities associated with the full life-cycle of energy development are managed appropriately and that Albertans and the environment are protected.

The government has already taken a number of steps to address liabilities in conjunction with the Liability Management Review.

On December 6, 2017, Energy Minister Margaret McCuaig-Boyd announced changes to the Alberta Energy Regulator's Directive 067 (Directive 067: Applying for Approval to Hold EUB Licences) to increase the requirements applied by the Alberta Energy Regulator to grant licences, to ensure that the privilege of being an oil and gas operator in Alberta is only granted to, and retained by, responsible parties.

On behalf of the Government of Alberta, the Minister of Energy has twice written to the federal Industry Minister asking for amendments to the federal *Bankruptcy and Insolvency Act* to better protect provincial jurisdiction and the rights of the Crown, landowners, and rights-based users of Crown lands.

In July 2018, the AER announced the area-based closure program. The program encourages operators to work together on being more efficient and effective in closing oil and gas infrastructure. The voluntary program benefits industry by saving them money – pilot programs have shown cost savings of up to 40 per cent – and benefits operators and Albertans by reducing the liabilities associated with inactive sites.

Question 7 [PA-761]

Mr. Barnes: Thank you, Mr. Chair. I've talked to many stakeholders, commercial users in particular, that are looking at the total cost of their full electricity bills and are looking at self generating as an option. Has your department done any studies as to how many commercial users may be looking at going to self generating and what this impact will be on other ratepayers?

Written response:

As of November 16, 2018, 120 commercial users have applied to Energy Efficiency Alberta's Residential and Commercial Solar Program. This program offers financial support to commercial users looking to self-generate, otherwise known as micro-generation. Ratepayers are not impacted by the cost of this program as it is funded by carbon levy funds.

Question 8 [PA-761]

Mr. Carson: Thank you. On page 58 of the annual report you talk about your efforts to protect consumers from electricity price spikes. The Regulated Rate Option cap has been in place for over a year now, and I'm hoping you can share if you found that the program has been valuable to Albertans.

Written response:

Since the rate cap implementation in June 2017, the Government of Alberta has disbursed \$37 million to protect Albertans from volatile Regulated Rate Option prices. Consumers were

protected from high electricity prices, over 6.8 cents per kilowatt-hour, in the months of April, July, August, September, October, and November 2018.

Question 9 [PA-762]

Mr. Panda: Currently wind projects selected under the renewable electricity program will not be participating in the capacity markets. Will the existing merchant wind be able to beat the capacity market?

Written response:

Projects selected for support under Renewable Electricity Program rounds one to three are prohibited from seeking additional revenues from the future capacity market by the contractual terms of the Renewable Electricity Support Agreements signed with the Alberta Electric System Operator.

This prohibition may or may not continue in future rounds of the program depending on the design of future rounds. Merchant wind (both existing and future) that does not hold a Renewable Electricity Support Agreement is free to seek other sources of revenue, including energy market revenues, participating in the forthcoming capacity market auctions (for wind assets that have a minimum one megawatt generation capacity), and the sale of their environmental attributes (renewable electricity credits).

Question 10 [PA-762]

Dr. Turner: Thank you. Do we have a sense of where orphan well reclamation has been taking place and which communities have seen activity over the years? These decisions were made by the Orphan Well Association and not by government. Do we have a sense of how many service companies have facilities in the province, and what's the status of their work?

Written response:

In the first nine months of 2018, work has been completed by the OWA on abandonment, reclamation, and other operations (inspections, remediation, decommissioning) all over the province, from north to south and east to west.

Over 70 municipalities, including all municipal districts and counties, and Special Areas have had work done by the OWA.

Over 230 companies have been contracted to do work for the OWA. The overwhelming majority of these companies are Alberta-based. When all considerations are equal (equipment and rates, experience and attention to safety), the OWA will preferentially hire local contractors to put money back into the community where the orphan wells or sites are located.

As noted in an earlier response, for the loan program to the OWA, as of August 15, 2018, 110 well abandonments and the reclamation of 48 sites has been completed. Additional preparatory work, including 4,824 inspections, well access construction operations, and 35 phase 2 environmental site assessments have also been completed and will set the groundwork for increasing numbers of abandonment, remediation, and reclamation projects in the future. The OWA estimates that the orphan well loan program will be used in the next three years to decommission 1,700 wells and 1,500 pipelines as well as reclaim 1,200 sites.

Question 11 [PA-762]

Mr. Hunter: How much coal-fired electricity did Alberta import last year from Montana sources?

Written response:

As there is no way to delineate what type of generation contributes to the electricity we import, we cannot provide amounts specific to coal-fired electricity. However, overall, Alberta imported a total of 222,372 MWh of electricity from Montana in 2017. This electricity would have come from both renewable and non-renewable energy sources. Additionally, in 2017 Alberta exported 285 GWh to Montana—a net export of 63 GWh from Alberta to Montana.

Question 12 [PA-762]

Mr. Carson: On page 31 of the annual report you report on the government's Petrochemical Feedstocks Infrastructure Program. I'm hoping that you could share with us the status of that program.

Written response:

The application season for the Petrochemicals Feedstocks Infrastructure Program was from June 11, 2018 until October 1, 2018. Evaluation of the applications is underway. Approved projects may be announced in late 2018 or early 2019.

Question 13 [PA-762]

Mr. Clark: What is the cost difference between what would have happened had PPAs been cancelled in 2016 versus the actual cancellation date in 2018?

Written response:

The financial results of the Balancing Pool are presented in its annual and quarterly reports. These results were predominantly affected by the prevailing market conditions that actually materialized. To establish the impact of counterfactual termination scenarios, market studies based on highly contestable assumptions would be required to assess the impact on the Balancing Pool and on consumers. The net impact on consumers may have been positive or negative depending on the assumptions employed. To the extent power prices increased following the termination of one or more Power Purchase Agreements (PPAs), the value of the Balancing Pool's market position would improve, but this improvement would only partially offset higher energy costs for consumers. For this and related reasons, consumer groups expressed conflicting views amongst themselves during the PPA termination consultation process as to whether the Balancing should proceed with any PPA terminations.

Question 14 [PA-762]

Mr. Gotfried: Did the Balancing Pool bid the provision of electricity below cost of recovery of the generating assets?

Written response:

No. The Balancing Pool has been offering its energy into the market at its short-run marginal cost of production, also known as variable cost.

Under this strategy, a market participant sells electricity when the market price exceeds its cost of generating electricity, yielding positive margins. Note that all generators, including the Balancing Pool, receive the same market price for electricity; they do not receive their respective offer prices. This strategy has resulted in the Balancing Pool (and the former buyers) earning significant profits through Power Purchase Agreement (PPA) positions prior to the collapse of market prices in 2015. It has played an important role in permitting the Balancing Pool to pay out in excess of \$4 billion dollars to Alberta electricity consumers. The Balancing Pool believes that this approach balances the various requirements set out in the *Electric Utilities Act* to manage its electricity assets in a commercial manner while at the same time supporting the fair, efficient and open competition electricity market, resulting in the Balancing Pool behaving as though it were a commercial entity in a competitive market. Offering energy into the market at each PPA's short-run marginal cost has been used by many market participants, including the Balancing Pool, because it is an inherently reasonable commercial strategy. It is an approach that is consistent with the offer strategies that the PPA buyers appear to have employed while they awaited termination confirmation. It is also consistent with the strategies of other large, non-PPA units in the market.