

KILOWAT



MARKET DETAILS¹

April Avg Pool Price
\$40.80/MWh
April Demand
9,306 MW (Avg)

May Avg Pool Price
\$74.78/MWh
May Demand
9,106 MW (Avg)

June Avg Pool Price
\$53.52/MWh
June Demand
9,090 MW (Avg)

Q2 Avg Pool Price
\$56.57/MWh

YTD Avg Pool Price
\$62.98/MWh

Note: \$10/MWh = \$0.01/kWh

FORWARD PRICES
(as of July 1, 2019)

2019 - \$63.96/MWh
2020 - \$57.50/MWh
2021 - \$58.77/MWh
2022 - \$52.75/MWh
2023 - \$52.02/MWh

5 Year Avg:
\$55.07/MWh

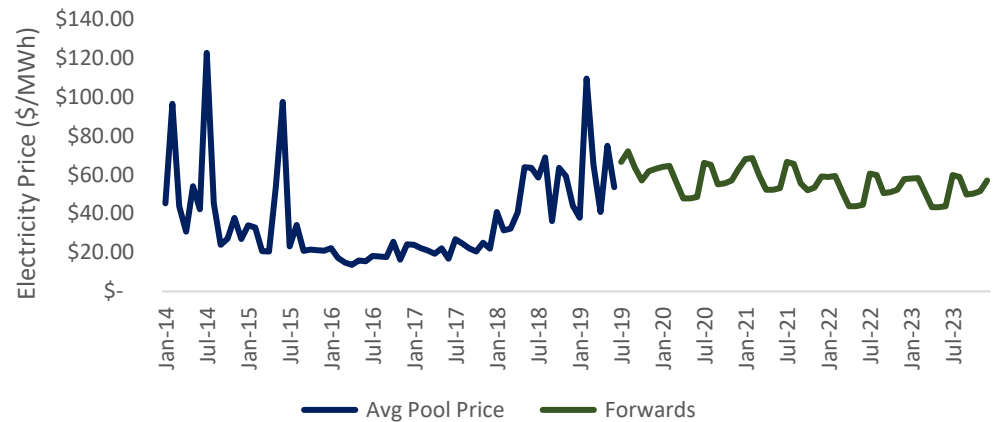


ENERGY UPDATE

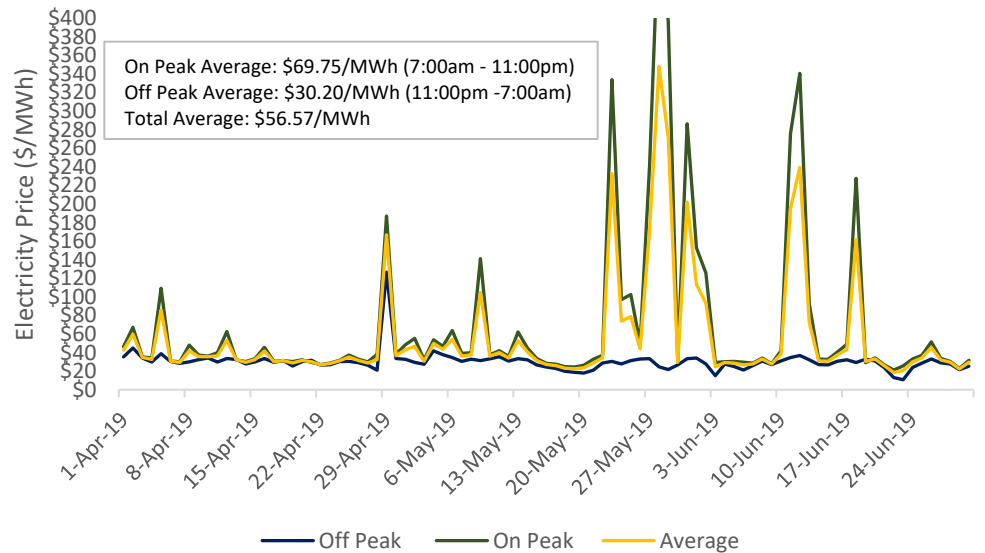
THE MOST UP TO DATE ENERGY INFORMATION TO HELP WITH YOUR BUSINESS DECISIONS

8760 is here to help customers manage their energy expenses – please contact your 8760 account executive at [1-888-988-8760](tel:1-888-988-8760) if you would like to discuss your specific situation.

Monthly Average Actual Pool Price + Forwards Jan 2014 to Dec 2023



On/Off Peak Electricity Pricing



COMMENTARY

Continued Price Volatility

In 8760's 2019 Q1 Market Update, we noted the start of the year saw significant price volatility relative to the Alberta electricity market and this volatility was likely to continue for the foreseeable future. This has certainly proven to be the case through the second quarter of 2019.

Pool prices for the month of April settled at an average of \$40.80/MWh which was only a slight increase over the average pool price of \$40.55/MWh from April 2018. However, this was a 37% drop in price from the March 2019 average price of \$65.04/MWh. Nothing significant occurred in the month which led to relatively stable prices throughout the month. Load demand for the month averaged 9,306 MW which was only a 0.2% increase over April 2018 average load demand.

Volatility returned to the scene in May as the average pool price settled at \$74.78/MWh which was a whopping 84% increase from the month of April. This was also 17% higher than the May 2018 settlement price of \$63.77/MWh. May saw several days settle above \$200/MWh including May 23 at \$232.68/MWh, May 28 at \$347.71/MWh, May 29 at \$271.16/MWh and May 31 at \$201.90/MWh. This volatility was attributed partially to an unscheduled outage at the Shepard Generation Station and minimal wind generation during the month. All told, prices jumped in the month of May resulting in higher costs for customers who are not in a fixed rate contract.

For the month of June, the average pool price was \$53.52/MWh. This represents a 28%

decrease from the average price in May but was 31% higher than the April average pool price, highlighting the volatility theme of 2019. The price drop in the month of June is due in part to stable demand as a result of the wet and cool weather that we have been experiencing as of late.

On a quarterly basis, the average quarterly pool price for Q2 of \$56.57 is 18% lower than the \$69.46 average quarterly pool price for Q1. On a year over year basis, Q2 2019 was almost identical to the average pool price of \$56.00 for Q2 2018.

New Sheriff in Town

The UCP under Jason Kenney took control of the province after their election victory on April 16. It did not take the government long to start unwinding many of the NDP programs that were put in place under Rachel Notley. The first order of business was to repeal the much maligned carbon tax. However, the government still intends to tax large industrial greenhouse gas emitters but the details of how this will be imposed are still largely unknown at this time, although we do know the overall tax level will be lower than the prior regime. This elimination of the provincial carbon tax now opens the door for the federal government to impose a federal carbon tax regime. The Trudeau government has announced this will indeed happen as of January 1, 2020, assuming of course, that the federal Liberals remain in power come October.

The UCP also announced they will not continue with the NDP's Renewable Electricity Plan which was targeting by 2030 to have 30% of Alberta's electricity generation coming from renewable

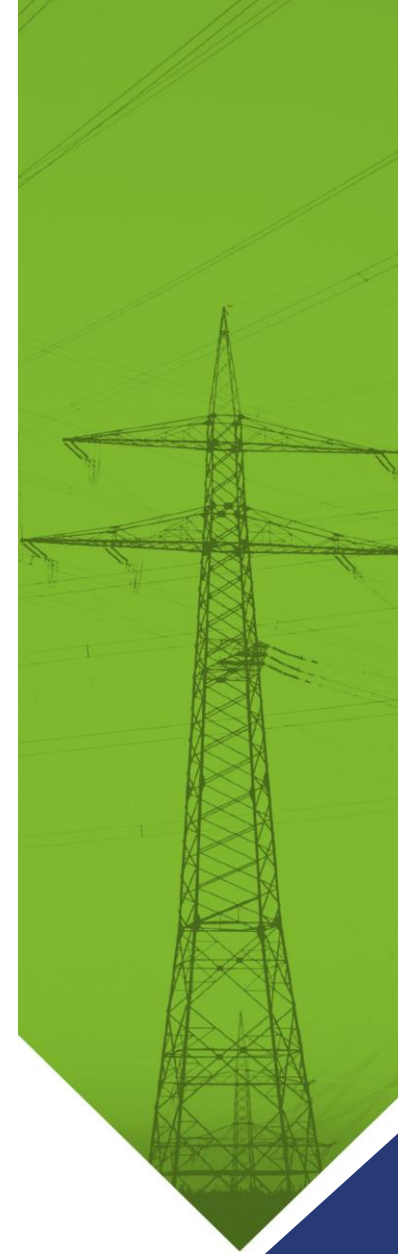
resources. The government would still like to see a mix of renewable generation as part of the Alberta energy landscape but only if the economics make sense and without the necessity of government subsidies.

The NDP's phase-out of coal-fired generation by 2030 is perhaps also under review (although there is Federal legislation that is also in play). If this legislation is revised, the final design of the carbon tax on the large emitters will be the ultimate market-driver to the future of coal-fired generation from some of the newer units.

As part of this change in strategic direction, the UCP advised the Alberta Electric System Operator (AESO) they would be conducting a review of its recommendation (approved by the NDP government) to move Alberta from an "energy only" market to an "energy" plus "capacity" market structure. The UCP will consult all interested parties as whether to continue on this road or to maintain the current "energy only" market design.

Many have argued Alberta's deregulated electricity market has served Albertans very well given prices over the last several years. Others argue the current market structure does not bode well for encouraging future investment in generation capabilities that is necessary to develop/maintain the power network and ensure reliable electricity generation in all corners of Alberta.

At this juncture, there is much speculation on the direction that will be taken and the future of a capacity market structure. The government plans to release its findings and go forward strategy in September.



Forward Prices on the Rise

The theme over the first two quarters of 2019 has been price volatility and higher prices. This upward trend is also reflected in the forward prices for electricity. However, not all of the forward price movement is associated with pure supply and demand fundamentals. Some of the price increase at the back end of the curve is associated with the speculation that the implementation of a capacity market in Alberta is very much in doubt. Let us explain:

When you look at the elements that make up the the wholesale price in our current energy only market, they include a cost of capital that provides the generator a return on their fixed assets, a variable cost of fuel that is charged for the actual generation of electricity, and a smaller admin fee that is levied to cover various miscellaneous costs. Demand and supply fundamentals also affect prices as it does in any competitive market situation. End user customers also pay a separate charge on their power bill for the distribution and transmission costs associated with getting the electricity to the customer's facility. These are regulated costs and are based on a series of rate codes and tariffs. Together, all of these costs represent the all-in wholesale cost of electricity charged to the end user.

In the capacity market construct, a capacity charge (which is intended to give the generator a guaranteed level of return on their assets whether they produce electricity or not) is intended to be levied as part of the distribution and transmission cost component. As the capacity charge levied regardless of whether electricity generation occurs or not, the overall cost for electricity is expected to be higher under a capacity market (although not all agree with this premise). With respect to the commodity cost portion of the bill, the capital cost becomes part of the capacity charge meaning the price of electricity generation would only be impacted by the

variable cost of fuel, demand and supply fundamentals and the inclusion of miscellaneous costs.

As the capacity market was set to come into play in later 2021, the forward market had priced this new reality into the forward prices. This is why the forward prices reported through most of 2018 showed a significant drop for the years of 2021 and beyond. Now that the market is anticipating the capacity market may not move forward, the prices on the back end of the curve have once again adjusted to reflect the current construct of including the capital cost in the commodity price.

It is important to understand that market prices are expected to continue to rise over the medium to long term with considerable volatility along the way. The Alberta economy has been in a slump for the last 2-3 years and the power market saw record low prices over that same period for a variety of reasons. Although the province is still recovering economically and there is still great financial uncertainty across all of Canada, power demand in Alberta is increasing and there is renewed optimism, however fragile, that things are on the rebound. With increased demand and somewhat constrained supply, this points to higher prices.

What does all this mean?

The repeal of the Alberta carbon tax means that businesses can enjoy the additional cash flow for the next few months. With the federal election coming in October, more clarity around the issue of federally imposed carbon tax will be realized once the next government is determined.

8760 has been watching and assessing the development of the Capacity Market for the last 2 years. We have adopted a contrarian view to many of our competitors and have generally been advising our customers not to

enter into any fixed-price electricity contracts past the end of 2021 until there was more certainty around the capacity market rules so resulting impacts to market fundamentals were understood. We are continuing to support this same approach until there is definitive clarity on which direction the UCP is going to take on this matter. We should have clearer direction in the next couple of months based on the timelines outlined by the UCP.

An AESO cost filing is expected at the end of July, and an Alberta Utilities Commission decision on interim market rules is also expected by the end of July 2019. Both of these may also provide some additional direction on the capacity market, assuming it proceeds as it is currently designed.

Price volatility in the power market is expected to continue due to political uncertainty around carbon taxes, economic issues which will impact demand, uncertain weather conditions, and uncertainty around supply given the previous government's phase out of coal-fired generation and the uncertain future of renewables as part of the generation mix.

There are options for businesses with respect to managing their electricity and natural gas expenses even with this kind of uncertainty. The decision to float the market on an index product or to create cost certainty by entering into a fixed price contract, or a combination of both, is largely dependent upon your appetite for risk, your budgetary ability to absorb price shocks, your business plan and ever changing market conditions. We can help you navigate these issues.

If you have questions about the capacity market or about appropriate risk strategies for your business, please contact your 8760 sales representative.

We make the complex simple.

8760 IS HERE TO HELP YOUR BUSINESS MAKE MORE INFORMED ENERGY DECISIONS

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EXPENSE MANAGEMENT

¹ Pool prices and demand levels attained from AESO system reports. Forward prices provided by CHASE Enterprises Ltd. Forward price for 2019 is calculated for July 1 – Dec 31

