



MARKET DETAILS<sup>1</sup>

July Avg Pool Price  
\$40.99/MWh  
July Demand  
9,486 MW (Avg)

August Avg Pool Price  
\$45.40/MWh  
August Demand  
9,443 MW (Avg)

September Avg Pool Price  
\$54.45/MWh  
September Demand  
9,159 MW (Avg)

Q3 Avg Pool Price  
\$46.87/MWh

Sept. YTD Avg Pool Price  
\$58.02/MWh

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

FORWARD PRICES  
(as of October 1, 2019)

2019 - \$59.08/MWh  
2020 - \$56.96/MWh  
2021 - \$58.23/MWh  
2022 - \$54.65/MWh  
2023 - \$53.46/MWh

5 Year Avg:  
\$55.81/MWh

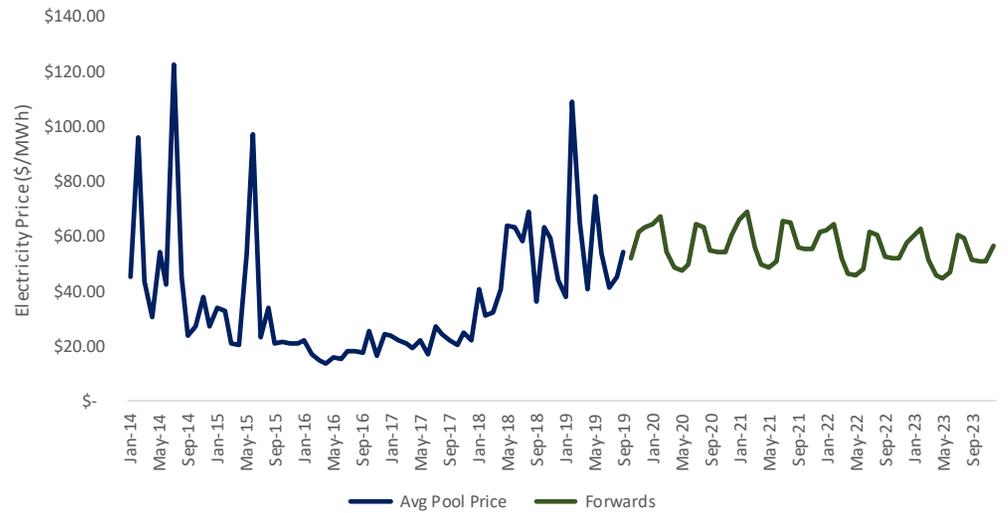


# ENERGY UPDATE

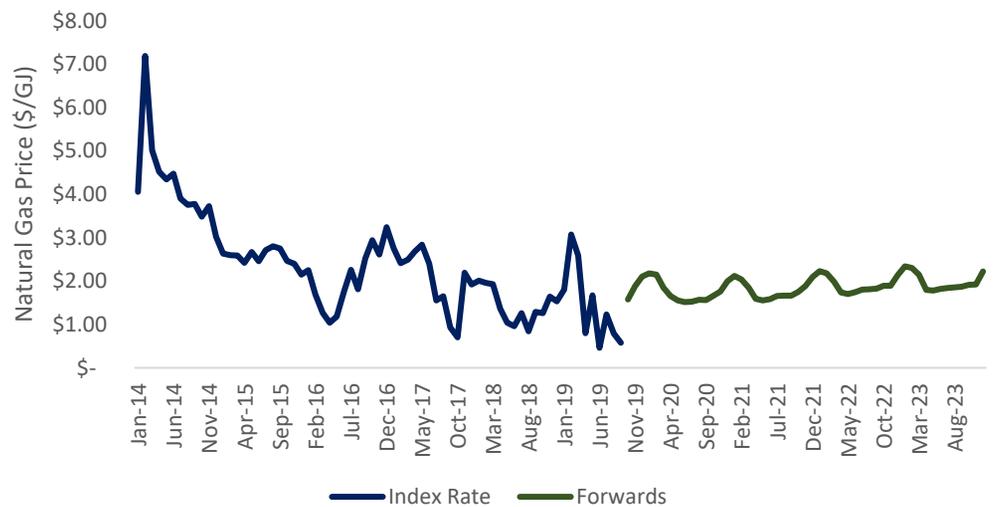
**THE MOST UP TO DATE ENERGY INFORMATION TO HELP WITH YOUR BUSINESS DECISIONS**

**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 Avg Actual Electricity Pool Price + Forwards  
Jan 2014 to Dec 2023



Monthly Avg Actual Natural Gas Price + Forwards  
Jan 2014 - Dec 2023



# COMMENTARY

## Volatility Continues...but Less Extreme

In 8760's 2019 Q2 Market Update, we noted the start of the year saw significant price volatility in 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 third quarter of 2019, although it has been less extreme than earlier in the year. The net effect has been lower overall monthly average prices.

Pool prices for the month of July settled at an average of \$40.99/MWh which was a 30% decrease from the average pool price of \$58.45/MWh in July 2018. This was also a 23% drop in price from the June 2019 average price of \$54.52/MWh. Despite a few days of modest volatility, the overall trend for July, August and September, was an unseasonably cool summer through most of Alberta which tempered demand.

The average pool price for August settled at \$45.40/MWh, slightly higher than July. This was a 34% decrease from the August 2018 settlement price of \$68.80/MWh. It is unusual for the two main summer months to have relatively low average pool prices and is thanks to a cool, rainy summer.

For the month of September, the average pool price was \$54.45/MWh. This represents a 20% increase from August and also a 50% increase from the September 2018 average price. Prices in September were generally lower and reflected typical shoulder season demands, however a few periods of higher volatility earlier in the month increased the overall average price for the entire month.

On a quarterly basis, the average quarterly pool price for Q3 of \$46.87/MWh is 17% lower than the \$56.57/MWh average quarterly pool price for Q2.

## Federal Election and Alberta Electricity Market Impacts

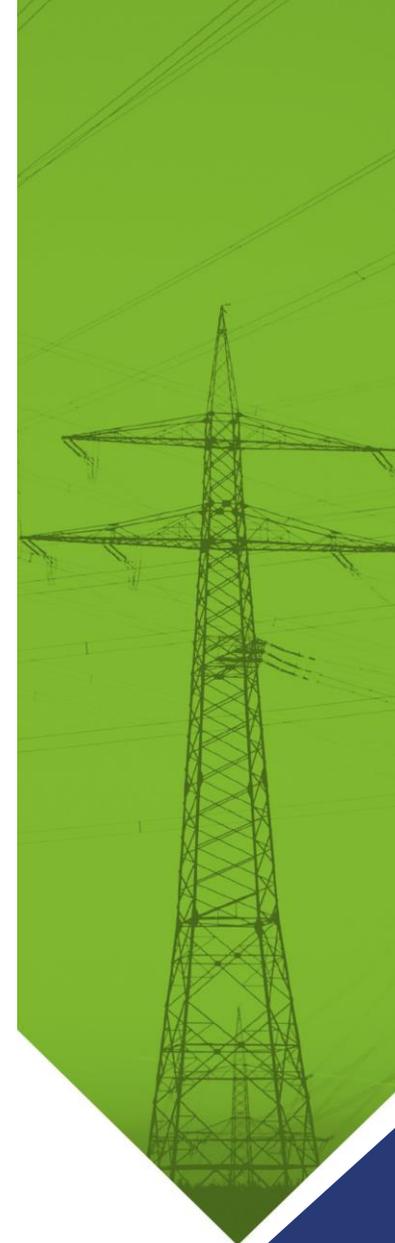
A common theme on the political and economic front these days seems to be "the more things change, the more they stay the same."

After the cancellation by the UCP of Alberta's capacity market initiative in late July 2019 as noted in our last report and the cancellation of the Alberta carbon levy in May, the next major event electricity industry participants were waiting for was the 2019 Federal election. The Federal Liberal government was re-elected on October 21, 2019, albeit with a minority government.

While the Federal Conservative party and its generally perceived weaker climate change platform won the popular vote with 34% support of Canadians, the remaining 66% of Canadians voted for federal parties with perceived stronger climate change policies including support for the much maligned carbon tax. Despite the stated positions of many provincial governments and their court challenges to the constitutionality of carbon taxes, it would appear existing federal climate change policies are well positioned to survive under the new Liberal minority government mandate in the near-term and are likely here to stay in Canada over the longer-term.

On a provincial level, the Alberta UCP government tabled its first budget on October 24, 2019 along with several electricity policy announcements shortly thereafter.

- As expected, effective November 30, 2019, the UCP will remove the electricity price cap of 6.8 cents per kWh that was put in place by the previous NDP government. The cap was implemented to insulate residential and small commercial customers that opted to be on the regulated rate option, from increased and more volatile electricity prices that have come into play over the last two years. Its elimination was due to budgetary concerns along with the cap flying in the face of free market fundamentals that are core to the UCP's fiscal/economic approach.
- The UCP government announced further details on its intended carbon tax plans for large emitters in the province (i.e. electricity generation, oilsands, and other large industrial plants like petrochemicals, cement, fertilizer, etc.). The UCP election platform supported charging a carbon tax of \$20/tonne on large emitters, applied to a lower standard of emission compliance compared to the regime put in place by the previous NDP government. With the re-election of the Federal Liberal government, and the resulting pending implementation of the federal carbon tax to Alberta effective January 1, 2020, the UCP government has softened its stance from its initial election platform.



- The UCP government's Technology Innovation and Emissions Reduction ("TIER") plan, now consists of the following elements:
  - A carbon tax of \$30/tonne will be applied to all large emitters effective January 1, 2020 (no change from today).
  - Lower emission compliance standards than today will be applied to the majority of large emitters, with the exception of the electricity generation sector.
  - Large emitters in the electricity generation sector will face effectively the same standards as in place under the previous NDP government.
  - The UCP plan is currently silent as to whether its carbon tax regime for large emitters will increase to \$40/tonne in 2021 and \$50/tonne in 2022 to remain in sync with the Federal carbon tax amounts.

The UCP's change in plans is in the hopes that the Federal government will approve the Alberta government managing the carbon tax for Alberta's large emitters/industries, leaving the Federal government to manage the carbon tax for the broader consumer and non-large emitter sectors. The Federal government will need to decide if this is acceptable prior to January 1, 2020. If the UCP plan is not acceptable, either further changes to it will be required, or simply the Federal carbon tax will be applied to all sectors of the Alberta economy.

Assuming the proposed UCP plan is approved, 8760's view is coal-fired generation plants in Alberta will continue on their current

trajectory of either shutting down, or fully/partially converting to natural gas, over the next few years.

- Lastly, as expected, the provincial budget does not contain any funding for energy efficiency initiatives or programs. The government has confirmed it will fund any contractual commitments entered into with Energy Efficiency Alberta prior to the UCP election win, but no new applications or programs will be funded.

## Natural Gas Prices – continued stability

Our last few reports have been focused entirely on the significant changes and the high degree of uncertainty in both electricity prices and market/policy matters. With things starting to stabilize in this area, it is worthwhile to provide an update on natural gas costs.

Natural gas prices have continued their long, gradual decline in the last several years due to an abundance of supply in both Alberta and North America. The supply surplus is particularly accentuated in Alberta due to the lack of pipeline capacity to move surplus gas out of the province to other markets.

Spot natural gas prices in Alberta have averaged \$1.44/GJ for 2019 YTD, ranging from prices of \$3.07/GJ in February 2019 to months of less than a \$1/GJ during some spring and summer months. These simple average natural gas prices are somewhat misleading however, as a large majority of 8760's customers experience significantly higher consumption in the colder winter months when spot prices are generally higher.

8760 customers that utilize floating price arrangements are experiencing an effective average cost of gas over the last year in the \$1.90 to \$2.10 per GJ range.

## What does all of this mean?

As always, it remains extremely difficult to predict the direction of power prices as many factors come into play. All we can do is point to general trends and how these may impact supply and demand fundamentals that ultimately determine actual market prices:

- Overall, 8760 expects the next several months to be relatively quiet on the market policy front. There are some smaller electricity market issues 8760 is monitoring, but (hopefully!) the majority of the large policy issues and uncertainties of the last two years are largely behind us.
- The UCP's revised carbon plan will increase the cost of coal-fired generation relative to its platform which, all else being equal, should result in an increase in forward electricity prices. In reality, the cost of coal-fired generation has not materially changed from the cost it has been experiencing the last few years. As such, it is not surprising to see no material movements in electricity forward prices since the UCP's TIER plan was announced.
- Electricity forward prices have decreased slightly (\$2-\$3/MWh) in the last few weeks, potentially resulting from a small reduction to the "political/regulatory uncertainty" premium that is always present to some degree in forward prices.



- There is an increasingly growing concern on the health of the Alberta economy, and whether we are heading towards (or already in) another recession. The oil and gas sector remains extremely challenged, and default/credit issues there and across the broader economy are showing up with increasing frequency.
- The UCP's fiscal austerity budget will be felt across many sectors. Questions on economic growth, and its resulting impacts on electricity demand in the province, may be weighing on forward prices and may potentially lead to some further downward pressure.
- Offsetting these demand pressures is the ever-present risk of high and volatile electricity floating price spikes in Alberta's now re-confirmed "energy-only" market, arising from any or all of weather impacts, unit outages and/or opportunistic pricing behavior by the electricity generators. One can reasonably expect at least two to three months a year, where the monthly average pool price is impacted by even short periods of hourly volatility within the month. An average pool price of \$60/MWh for the year, may very well consist of a few high months in the \$70-\$80-\$90 (or higher) range, and a few lower months in the \$40-\$50 range.

Natural gas prices are a little easier to predict as demand/supply fundamentals continue to remain fairly consistent/predictable:

- Natural gas prices are expected to remain stable in the near-term, with the usual periods of higher floating prices in the upper \$2/GJ to lower \$3/GJ range during the higher consumption winter months, particularly if we or the U.S. Northeast suffer periods of extreme cold.
- Natural gas prices are expected to gradually increase over time due to increased pipeline access and the building of liquified natural gas (LNG) plants for export and fuel switching.
- The largest natural gas impact to 8760's customers in the immediate future will be the introduction of the federal carbon tax on January 1, 2020. Exact details are still unknown, but generally customers should expect a carbon tax on natural gas consumption of \$1.01/GJ for January 1, 2020 to March 31, 2020 and \$1.52/GJ for April 1, 2020 to March 31, 2021, similar to the previous NDP government's carbon tax before it was cancelled by the UCP on May 30, 2019.
- The short-term carbon tax holiday will soon be over. For longer-term budgeting or forecasting purposes, 8760 suggests it is prudent to assume carbon taxes will be increasing to \$40/tonne on April 1, 2021 (implied carbon tax \$2.03/GJ) and \$50/tonne on April 1, 2022 (implied carbon tax \$2.54/GJ).

## We Can Help

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 electricity and/or natural gas markets or about appropriate risk strategies for your business, please contact your 8760 account executive.

### WE MAKE THE COMPLEX SIMPLE

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

Please contact your 8760 account executive at **1-888-988-8760** if you would like to discuss your specific situation.



EXPENSE MANAGEMENT

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

