

# Black & White Report



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[Black & White Report](#)

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Please take my advice and...

## Get the Hell Off the Regulated Rate

The Regulated Rate Option for electricity in Alberta, also known as the RRO, is a nasty rate, designed to be unstable and expensive. It is also the rate most Albertans are paying, by default.

I'll go through my knowledge about this rate and the reasons you should go off the RRO below, but if you only take away one thing, **there's never going to be a cheaper time to get off this rate before it burns you.**

### Regulated Rate Option 1 - 2001 Thar' She Blows

The Regulated Rate Option was first put into place in 2001. I was part of the team at the Alberta Energy and Utilities Board trying to figure out how to come up with a rate for electricity that was entirely market-based. The utilities and consumer representatives were strongly encouraged to come to agreements on how to buy power for their residential and small commercial customers. For each of the utilities a plan and process was put in place to buy contracts for power from the "competitive" market.

EPCOR customers went first in late 2000. They got creamed, lambs to slaughter. Their power rates went to nearly 15 cents per kilowatt hour from under 5 cents per kilowatt hour. The Government capped the rates at 11 cents per kilowatt hour. EPCOR customers had to pay back the shortfall for the next two years.

ATCO customers got luckier, because their settlement process took

longer, they weren't in the market for the first few loopy months of 2001.

Then a funny thing happened. The market started working. Spot power prices and contract power prices dropped and stayed pretty low through 2005.

### Regulated Rate Option 2 - 2005 Ratchet Up the Pressure

The Government had a big problem in 2005. The RRO was the best deal going. People had been badly burned by jumping from the high RRO rates of 2001 into long-term contracts that sucked badly. Only 7% of residential customers were on a contract.

The solution was to make the RRO worse over time. Consumers would not be protected by long-term contracts, but would end up having to buy power month to month, no more than 60 days ahead. This had the effect of cornering RRO buyers in the market and driving up prices. Then it got worse.

### Regulated Rate Option 3—2013 Bad Rates Happen to Good People

The only real change to the RRO made after the recent and extensive Retail Market Review was to extend the contract buying window from 60 days to 120 days to solve that one problem. The problem is, that's not the problem.

As the Review properly mentions, it is a change in the way the wholesale market behaves that causes extreme volatility in electricity prices.

## Get the Hell Off the Regulated Rate (cont.)

Since 2011, Alberta generators have had free rein to offer up any part of their power production at any price they like, up to \$1 per kilowatt hour. Not surprisingly, there are always a cluster of offers over 90 cents per kilowatt hour.

Whenever there is a shortfall in electricity supply versus demand – say caused by a plant breakdown – the price shoots towards \$1 per kilowatt hour. Last year, there was just over a week (172 hours) where the price of power was over 70 cents per kilowatt hour. That, I think was a good year.

Electricity prices will rise in Alberta when there are more of these “Golden Hours” in which a supply shortfall spikes the hourly price. So, what happens if some of our old coal-fired plants, near the end of their useful lives, were to crap out at the same time? More Golden Hours. What happens as demand grows? More Golden Hours.

One week of Golden Hours in a month and you can be at 25 cent power, even if power is free for the rest of the month.

The suppliers to the RRO either have to buy from, or could otherwise sell to, the Alberta spot electricity market. They demand a risk premium for guaranteeing a monthly price, on top of what they expect for spot market prices. What the Review found was that risk premium shot up after a pool price shock and stayed up afterwards.

I believe that the RRO, as it is designed, could hit 25 cents per kilowatt hour or higher. All it will take is for a few of our fleet of near-retirement power plants to breakdown together—again.

### Your Options You Have to Help Yourself

The Retail Market Review Committee recommended that the Government phase out the RRO and

force customers to move to a competitive retailer. This recommendation was rejected outright by Government.

You might think that the Review Committee was made up of free-market zealots, uncaring for the plight of consumers and that the Government was protecting consumers by rejecting their most extreme recommendations, but you'd be wrong.

I know two of the Review Committee personally. Ted Pound was Chair of our Advisory Committee for the Utility Consumers Advocate (UCA) while I was Executive Director. Rick Cowburn was one of my senior consultants. Both of these men care about consumers. They care about them a lot.

They concluded that folks should get off the Regulated Rate Option, and so do I.

You have a number of options to find a retailer for electricity and gas in Alberta. Hundreds of people have asked me for advice on what contract to choose. I recommended to all of them to lock in electricity prices and go with floating natural gas prices. That's what I have done for our family.

There are now a number of new Alberta based retailers. I am impressed that a new breed of entrepreneurs have sprung up to fill in the gap for the big, trans-national retailers that never materialized. (We don't miss you Enron...)

Look up prices and terms at [www.ucahelps.alberta.ca](http://www.ucahelps.alberta.ca), then please get the hell off the RRO.

### Dear Alberta Retailers, Pigs Get Fat, Hogs Get Slaughtered

Anyone with access to forward pricing information knows that profit margins on a lot of your offerings are a bit rich. Even so, I still recommend that consumers get off the RRO.

Now would be a good time for you to sharpen your pencils.

- Dave Gray, May 1, 2013 -

## Energy Markets Outlook

### 7 x 24 Base Load Forward Electricity Prices—Alberta

Term	MTD Average (\$/MWh)	YTD High (\$/MWh)	YTD Low (\$/MWh)
<b>Q3 13</b>	\$67.95	\$68.50	\$60.75
<b>Q4 13</b>	\$57.60	\$58.75	\$55.00
<b>CAL 14</b>	\$50.75	\$50.75	\$48.00
<b>CAL 15</b>	\$48.90	\$49.50	\$47.00
<b>CAL 16</b>	\$50.65	\$52.25	\$50.00
<b>CAL 17</b>	\$54.80	\$55.00	\$52.00
<b>CAL 18</b>	\$55.90	\$56.25	\$54.25

### NGX Natural Gas Prices

Term	MTD Average (\$/GJ)	YTD High (\$/GJ)	YTD Low (\$/GJ)
<b>Q3 13</b>	\$3.46	\$3.55	\$2.76
<b>Q4 13</b>	\$3.63	\$3.74	\$2.99
<b>CAL 14</b>	\$3.61	\$3.70	\$3.33
<b>CAL 15</b>	\$3.70	\$3.82	\$3.61
<b>CAL 16</b>	\$3.79	\$3.98	\$3.70
<b>CAL 17</b>	\$3.99	\$4.24	\$3.88
<b>CAL 18</b>	\$4.47	\$4.67	\$4.39

Note: The above prices do not reflect any bid/ask spread associated with real time procurement transactions.

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### Electricity Forward Market

Excellent buying opportunities are available through 2016 and beyond for base load and load following products.

Sellers are looking for buyers that are able to commit to forward purchases. Contact [markets@geeinc.ca](mailto:markets@geeinc.ca) for more information.

### Natural Gas Forward Market

Gas prices have been leveling out between prompt and forward years. The market is still contango, but near term prices have risen dramatically.

There is still a significant premium on fixed vs. market, but locking in may make sense at historically low gas prices.



## Energy Economics Inc.

Gray Energy Economics Inc provides expert advice and advocacy services for Alberta commercial gas and electricity consumers.

- Energy Management
- Wholesale Energy Procurement
- Bill Review
- Customer Advocacy

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