

MSA FALL STAKEHOLDER MEETING

September 27, 2005 Edmonton

September 28, 2005 Calgary

TIE-LINE ECONOMICS UPDATE

MSA STAKEHOLDER MEETING DOUG DOLL

September 27 & 28, 2005

www.albertamsa.ca

BACKGROUND

- Stakeholder meeting last fall
- January 10, 2005 Paper
- July 28, 2005 Notice
- September 23, 2005 follow-up paper

FOCUS OF THIS FOLLOW-UP

- Paper and today's remarks focus on imports on the BC tie
- Uneconomic imports continue to be an issue

BRIEF REVIEW OF APPROACH

- Identify uneconomic flows by estimating imputed hourly economics
- Hourly PP, DJ Hourly Mid-C index, applicable transmission, & losses
- PWX included – economic assessment slightly different due to their unique position
- All data used is publicly available

IMPUTED IMPORT ECONOMICS

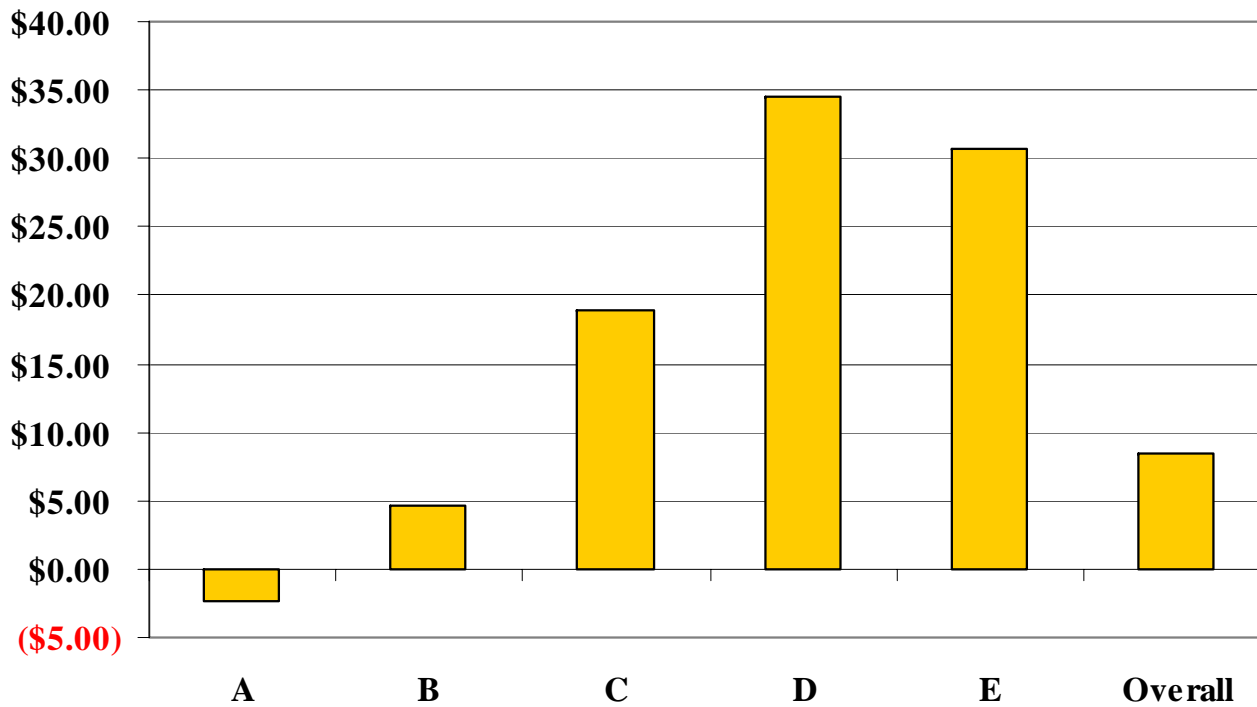
Alberta-based importer:

$PP > [\text{Mid C} + \text{TX \& L from Mid C to AB}]$

Powerex:

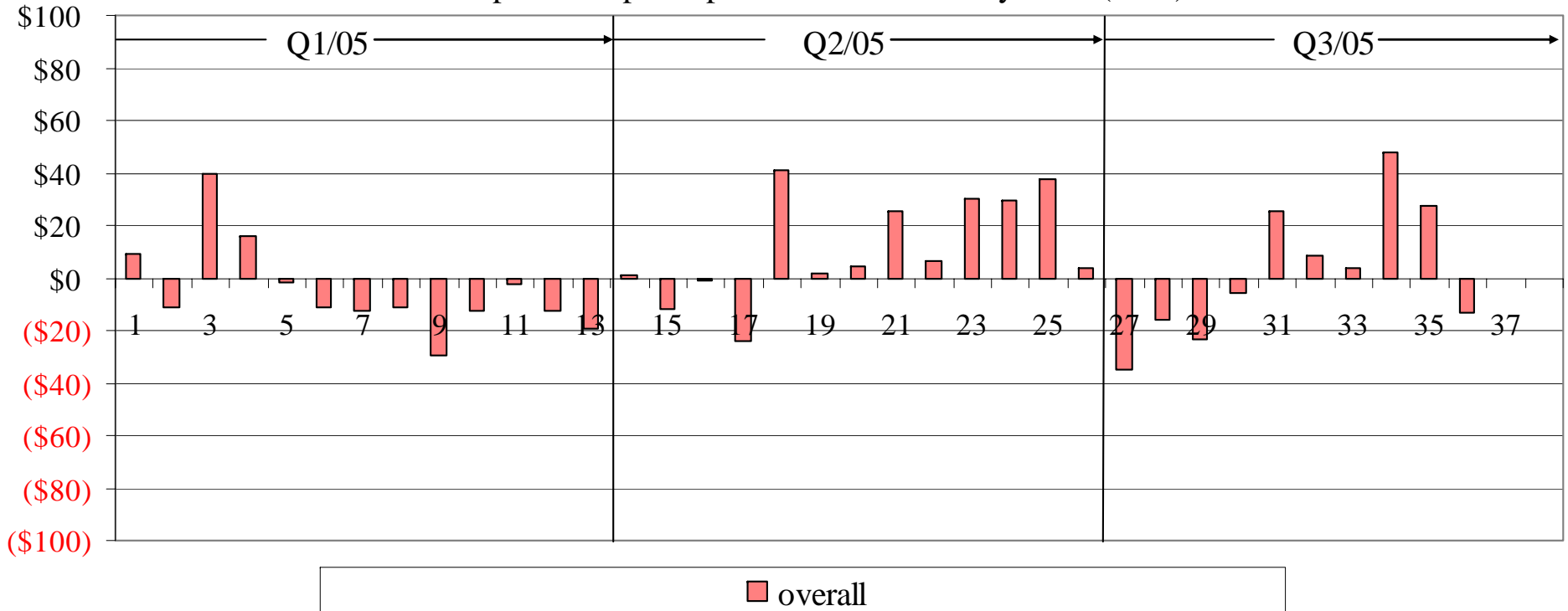
$PP \text{ less TX \& L} > \text{Mid C less TX \& L}$

2005 YTD BC IMPORT ECONOMICS



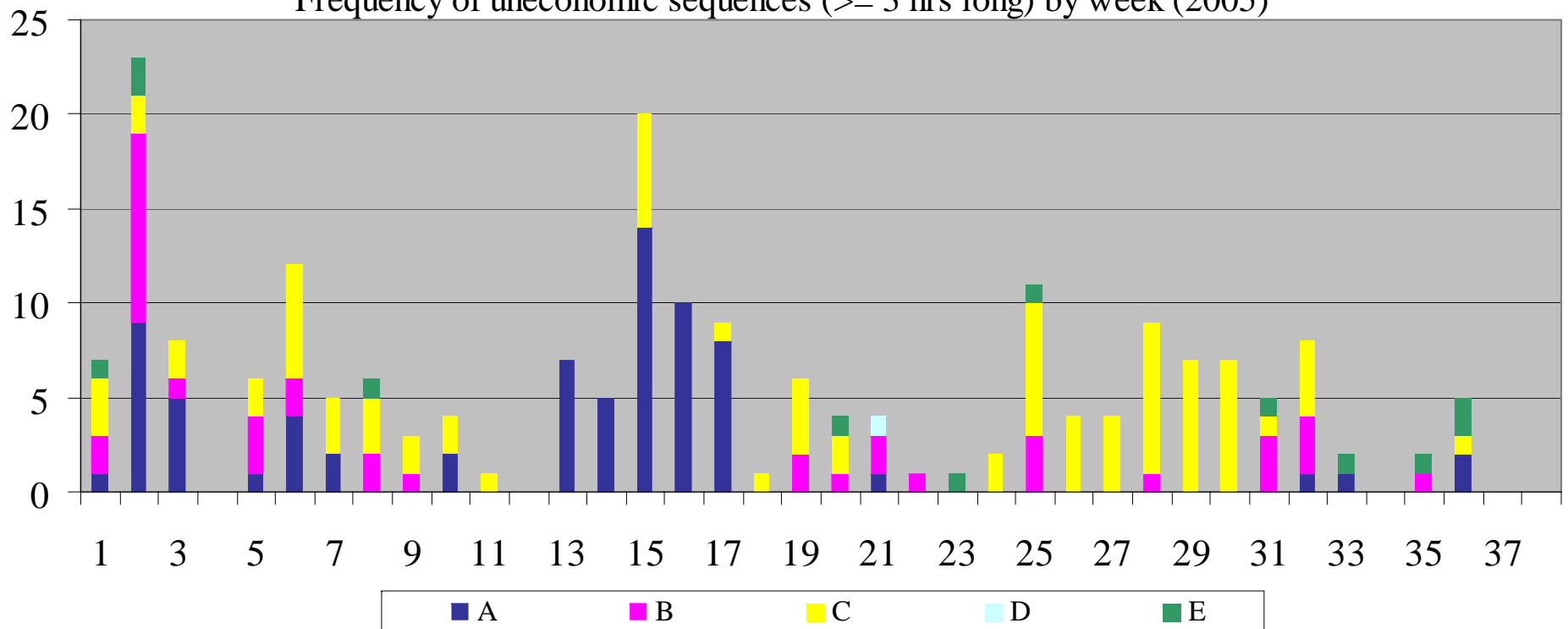
IMPUTED BC IMPORT ECONOMICS BY WEEK (2005)

BC Imports - imputed per MW economics by week (2005)

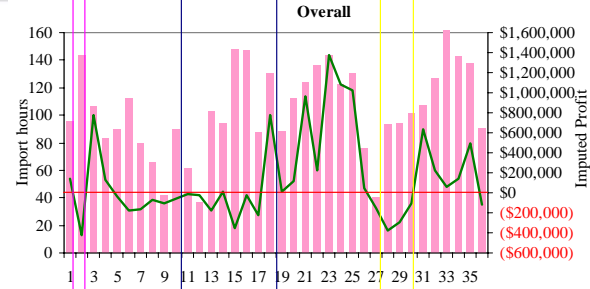


SEQUENTIAL UNECONOMIC BEHAVIOUR

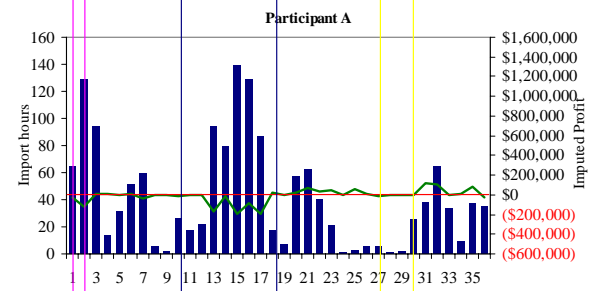
Frequency of uneconomic sequences (≥ 3 hrs long) by week (2005)



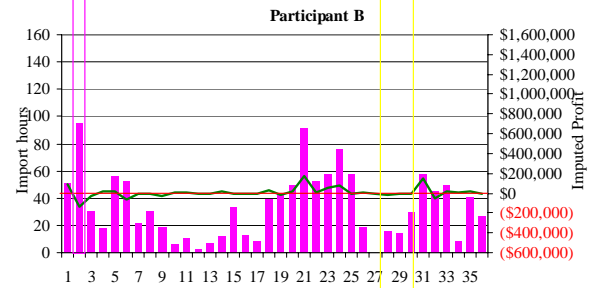
Overall →



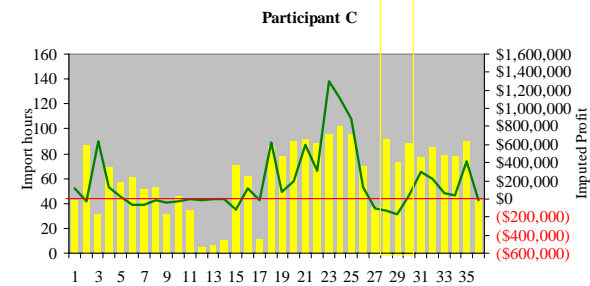
Participant A →



Participant B →



Participant C →



CONCLUSIONS

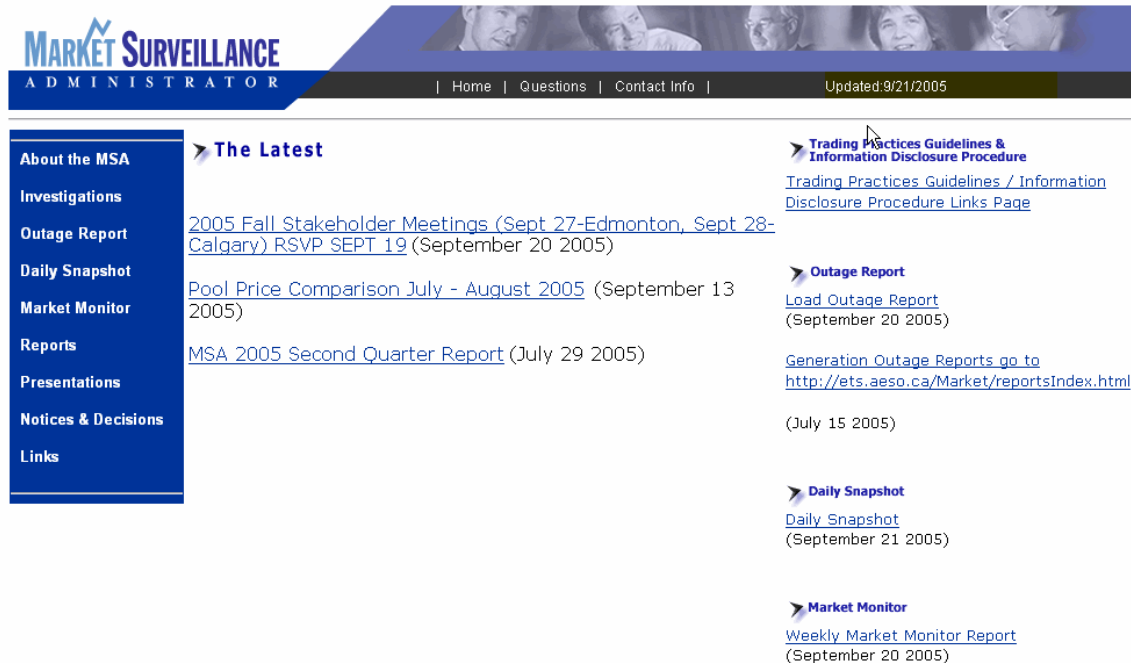
- **MSA actions during 2005 had favorable effect on behaviour**
- **Participants must continue to adhere to guidance outlined in July 28 notice**
- **Bad behaviour by one party is enough to muddy the water (distort the price signal)**

NEXT STEPS - MSA

- **MSA supports efforts of AESO to find a mechanism allowing tie line volumes to bid & offer at a price**
- **Continue to closely monitor intertie performance & conduct – revisit in annual report**

TIE LINE UPDATE

Paper to be posted to the web: www.albertamsa.ca



MARKET SURVEILLANCE
ADMINISTRATOR

| Home | Questions | Contact Info | Updated: 9/21/2005

- About the MSA
- Investigations
- Outage Report
- Daily Snapshot
- Market Monitor
- Reports
- Presentations
- Notices & Decisions
- Links

The Latest

- [Trading Practices Guidelines & Information Disclosure Procedure](#)
[Trading Practices Guidelines / Information Disclosure Procedure Links Page](#)
- Outage Report**
[Load Outage Report](#)
(September 20 2005)
[Generation Outage Reports go to](#)
<http://ets.aeso.ca/Market/reportsIndex.html>
(July 15 2005)
- Daily Snapshot**
[Daily Snapshot](#)
(September 21 2005)
- Market Monitor**
[Weekly Market Monitor Report](#)
(September 20 2005)

2005 Fall Stakeholder Meetings (Sept 27-Edmonton, Sept 28-Calgary) RSVP SEPT 19 (September 20 2005)

[Pool Price Comparison July - August 2005](#) (September 13 2005)

[MSA 2005 Second Quarter Report](#) (July 29 2005)

**ONE YEAR ON:
ASSESSMENT OF THE TPG/IDP**

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TRADING PRACTICES GUIDELINE

- *Market participants must not trade on the basis of known but not public information about the status of supply, load or transmission assets that can reasonably be expected to have a material impact on market price. Trading shall be understood to include any type of financial or physical transaction or operational strategy designed to extract value from known but not public information about the status of supply, load, or transmission assets.*

TPG/IDP: ONE YEAR ON

SCOPE

- Assess impact on liquidity
- Assess if unintended negative consequences
- Assess monitoring & enforcement

METHODOLOGY OF ASSESSMENT

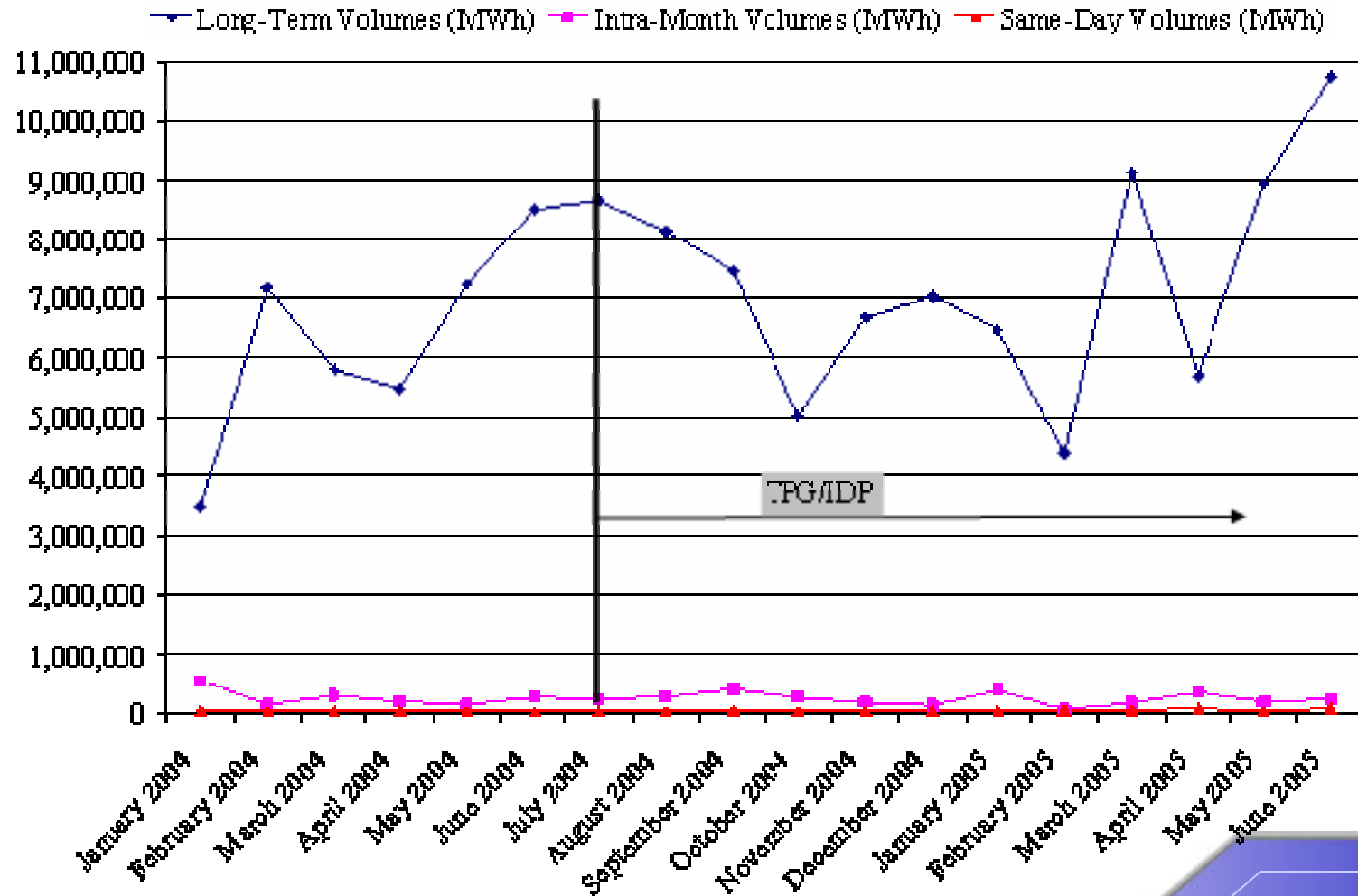
- Forward Market Data - 11 larger participants
- Assess impact on broader market
- Stakeholder survey

FORWARD MARKET ASSESSMENT

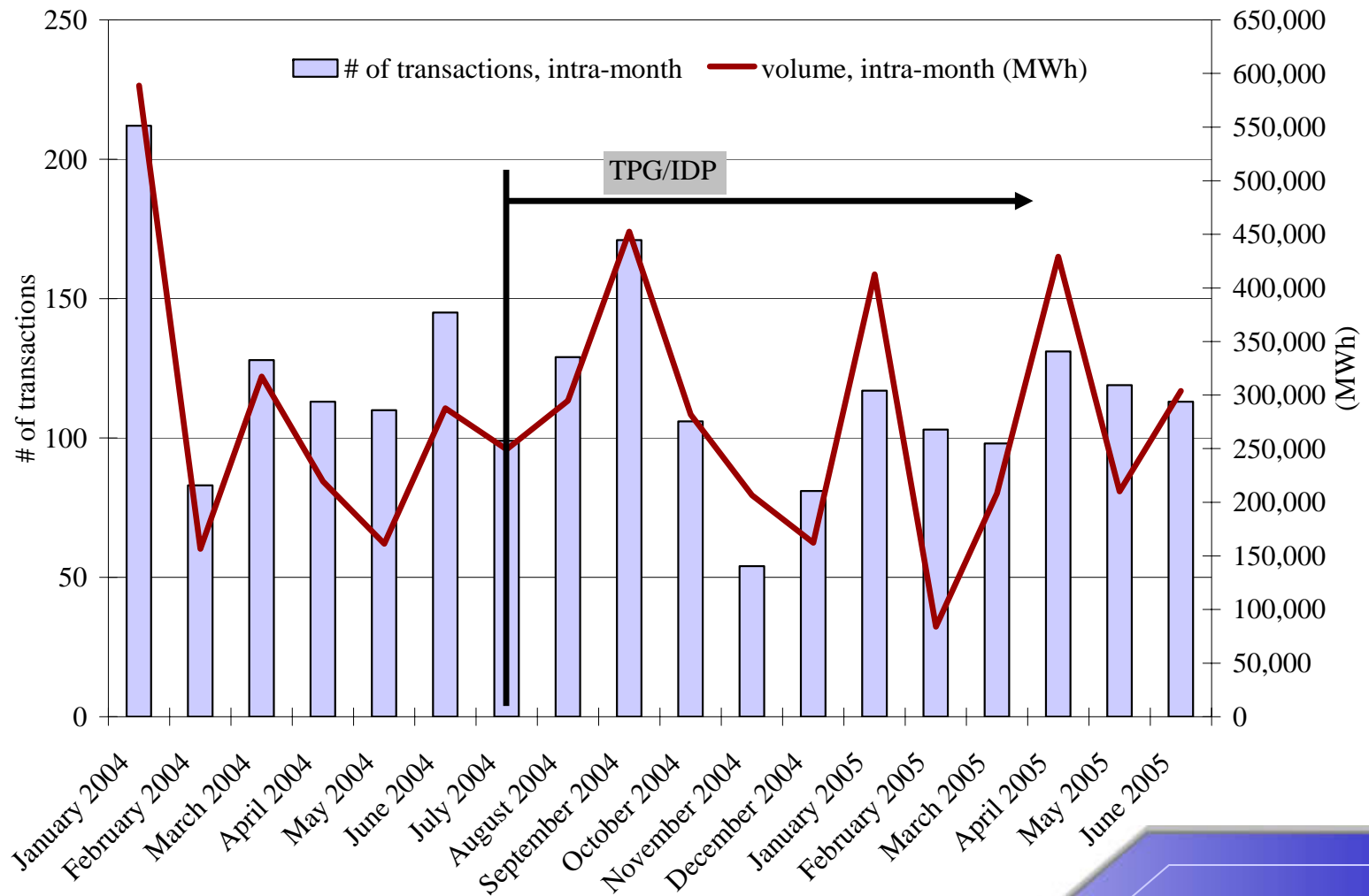
- **TPG/IDP Enforcement Began in July 2004**
- **Data Examined Runs From Jan 2004 – July 2005 (18 months)**

FORWARD MARKET LIQUIDITY

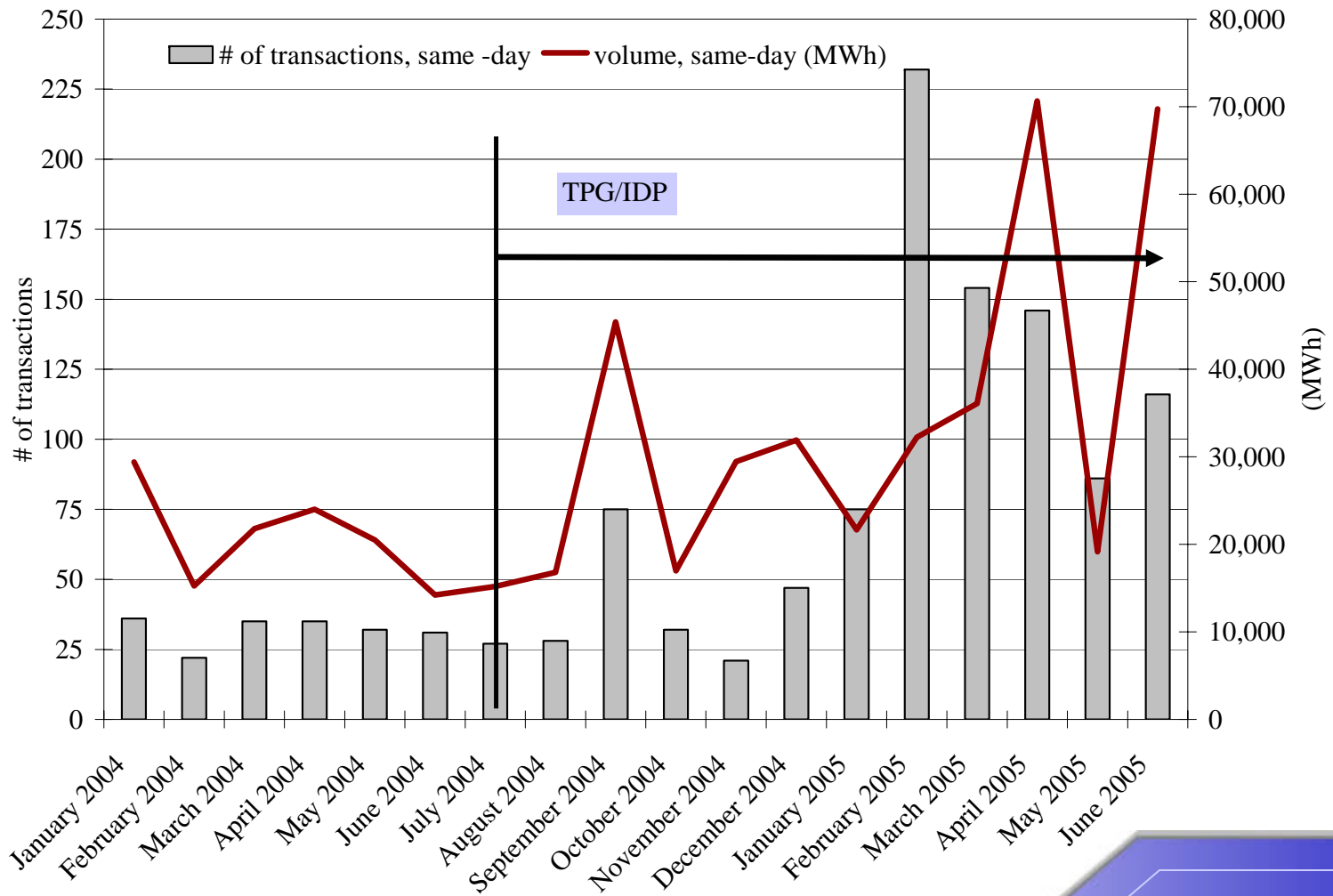
Total Volume by Term: Long-Term, Intra-Month and Same-Day



INTRA-MONTH VOLUMES AND NUMBER OF TRANSACTIONS



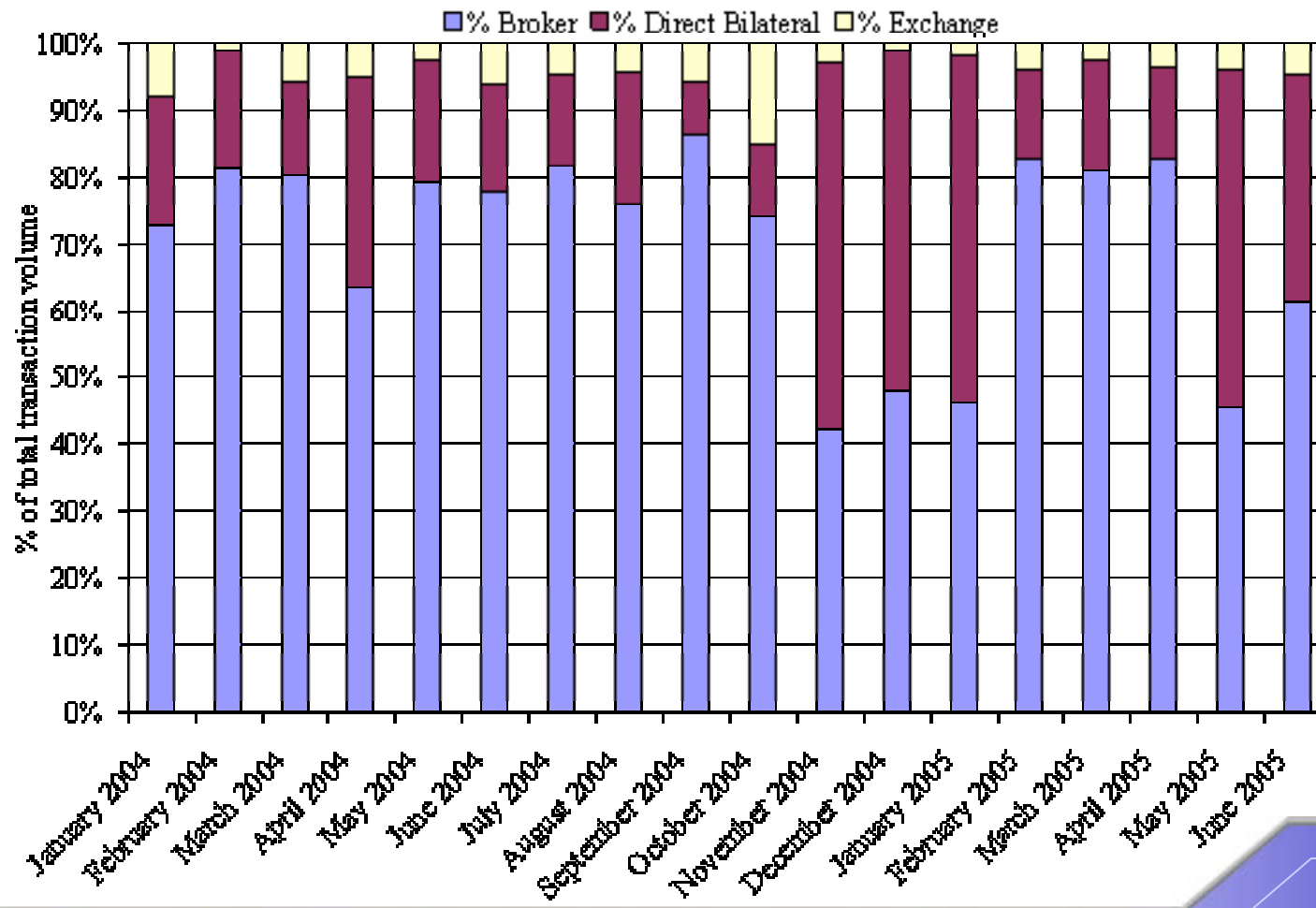
SAME-DAY VOLUMES AND NUMBER OF TRANSACTIONS



SUMMARY OF FORWARD MARKET DATA

- **No evidence that forward market volumes have declined**
- **No participants surveyed exited market**
- **TPG/IDP impacts difficult to isolate given other market events and lack of transparency of the market**

TOTAL TRANSACTION VOLUMES BY BROKER, DIRECT BILATERAL AND EXCHANGE



STAKEHOLDER SURVEY

STAKEHOLDER SURVEY

- TPG/IDP very focused on trading activities
- Strongly held view: TPG based on sound principle
- Outage reports are viewed frequently, influence short term trading decisions
- Weak support for TPG/IDP having material/beneficial influence on market confidence
- Stakeholders unclear whether MSA was effectively enforcing TPG/IDP

TPG/IDP COMMUNICATIONS AND ENFORCEMENT

- **Fall 2004 – 3 investigations, violations found**
- **Winter 2005 – 4 preliminary assessments**
 - **Generally good level of compliance**
 - **Tension between PPA Buyers/Owners over timing of outage reports (system improvements underway)**
- **MSA pleased with efforts to establish business practices**
- **Persistent data issue around recording of transaction dates/times**

CONCLUSIONS

- Upward trend in overall volume, significant increase in same-day volumes, difficult to isolate impact of TPG/IDP
- Continuing to improve IDP mechanism, system improvements on their way
- Improved timelines and accuracy of outage reporting by participants
- TPG/IDP is fundamental to fair, efficient and open competition
 - *no adverse impact on volumes,*
 - *no apparent market exit,*
 - *broad support for TPG/IDP principle*

UNDESIRABLE CONDUCT & MARKET POWER

MSA STAKEHOLDER MEETING
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WHY NOW?

MSA July 26, 2005 paper prompted by:

- PPA holding restrictions to be modified in April 2006**
- Pending changes to PPA assets (sale of Sheerness, Genesse 1 & 2, termination of Clover Bar PPA)**
- June 2005 policy recommendations confirming the fundamentals of the existing market design**

NOT JUST MARKET POWER

- **EUA 2003 Section 6**

“Market participants are to conduct themselves in a manner that supports the fair, efficient and openly competitive operation of the market”

- **Key to the MSA mandate is assessing:**

- If participant conduct meets this standard; **AND**
- If market rules facilitate a *fair, efficient and openly competitive outcome*.

WHAT IS FEOC?

MSA has identified some high level principles:

- High fidelity price signal
- Competitive response
- Information rich environment
- Balance between risk and reward
- Level playing field
- Opportunity to compete

CONDUCT THAT SUPPORTS FEOC

MSA has also identified key principles of good conduct:

- act with integrity
- shall not seek to constrain competition
- conduct shall be for legitimate business purposes
- adopt sound trading practices
- shall not endanger system reliability, safety or security
- participants and employees must understand the obligations placed on them
- participants must:
 - maintain proper documentation
 - provide reasonable cooperation
 - clear lines of accountability

REFINEMENT OF DEFINITIONS

MSA committed to continuing to refine guidance for participants as to:

- 1) What is the meaning of *fair, efficient and openly competitive***
- 2) What conduct does (and does not) support FEOC**

SPECIFIC CONCERNS

In some cases it may be possible to identify specific concerns with the *potential* for undesirable conduct. If so, the MSA has suggested the following process:

- the MSA notifies participant of concern
- MSA asks participant about the safeguards in place to alleviate potential concerns → Conduct compliance plan
- plan *focused* and *flexible* enough to deal with specific concerns
- mandatory requirement for plans only at a high level of concentration (control of 30% of installed capacity)

Compliance plans intended for limited use: *let competition, not rules, do the heavy lifting*

GOING FORWARD....

- the MSA will continue to provide guidance on FEOC and undesirable conduct
- consultation with stakeholders to improve clarity of the principles underlying FEOC
- conduct compliance plans: we believe are a useful tool but open to alternate suggestions