



Compliance Review 2014

February 11, 2015

The Market Surveillance Administrator is an independent enforcement agency that protects and promotes the fair, efficient and openly competitive operation of Alberta's wholesale electricity markets and its retail electricity and natural gas markets. The MSA also works to ensure that market participants comply with the Alberta Reliability Standards and the Independent System Operator's rules.

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Executive Summary

Key Findings

- The number of ISO rules compliance issues addressed by the MSA in 2014 was down marginally year over year, and while the MSA took enforcement action in a similar number of cases, the majority in 2014 were for first contraventions within a twelve month period. Self-reporting of compliance matters continued to be a prominent theme in 2014 as well. Accordingly, the MSA is of the view that participants are taking their obligations seriously resulting in fewer and more intermittent ISO rules compliance issues in 2014.
- The compliance regime for Alberta Reliability Standards continued to evolve in 2014 with more standards applicable to the ISO and participants. Enforcement action increased in 2014 versus 2013; although this can be attributed to a large increase in the number of compliance audits completed by the AESO in 2014 and the resulting referrals following from these. The MSA and the Western Electricity Coordinating Council (WECC) conducted a reliability compliance audit of the AESO in 2014 resulting in no issues of concern.

Why this review

This report and other interim compliance reporting is provided further to the MSA's commitment to be open and transparent, as we carry out our mission to promote effective competition and a culture of compliance and accountability in Alberta's electricity market. This report is also provided further to section 23(2) of the Alberta Transmission Regulation.

MSA Mandate

The MSA has a broad mandate of surveillance, investigation, and enforcement in respect of the Alberta electricity market and it accomplishes it through a number of products and services. This overarching mandate encompasses both the MSA's oversight of market behavior so Albertans benefit from competitive markets and ensuring a well-functioning and dependable electricity sector through enforcing of compliance with ISO rules and reliability standards – the subject of this annual review.

Market Rules and Standards in Alberta

Market rules are established in Alberta by the Alberta Electric System Operator (AESO) in consultation with market participants. The purpose of market rules is to promote orderly and predictable actions on the part of market participants and to support the role of the AESO in coordinating those actions. As set out in the Alberta Transmission Regulation, the AESO in consultation with industry, reviews NERC and WECC standards to assess and recommend to the Alberta Utilities Commission (AUC), whether those standards are applicable to the Alberta Interconnected Electric System (AIES). The purpose of reliability standards is to ensure the various entities involved in grid operations (generators, transmission operators, system operators i.e. ISOs) are doing their part by way of procedures, communication, coordination, training, and maintenance, among other practices, to support the reliability of the interconnected electric system. Alberta Reliability Standards are applicable to both the AESO and those who control generation or transmission facilities in the province. The bulk of Alberta Reliability Standards are AESO applicable given the scope of the AESO's responsibilities and a smaller subset are applicable to entities other than the AESO.

Enforcement Framework

In Alberta, the AESO has a mandate to conduct compliance monitoring. The AESO applies its technical and operational expertise to scan for potential rule and standard contraventions by market participants and refers them to the MSA for action. The AUC is the decision maker on financial penalties and in this regard, AUC Rules 019 and 027 authorize the MSA to issue notices of specified penalty as prescribed in those rules. If a party disputes a notice of specified penalty, the matter is settled by way of a hearing or other proceeding before the AUC. Alternatively, the MSA can enter into settlement agreements concerning a contravention or request a hearing before the AUC. In either case, the AUC approves the outcome. The MSA's compliance process allows participants the opportunity to self-report issues of non-compliance with the prospect of favorable treatment in order to promote self-monitoring and robust compliance programs in industry.

What we looked at

The MSA's process is to report summary compliance metrics as part of its quarterly reporting and to compile and publish a separate more comprehensive analysis following year-end. For 2014 we summarize compliance matters received by referral or by self-report, and how those matters were distributed amongst various rules and standards. We summarize enforcement activities in terms of the MSA's issuance of specified penalties by rule and standard.

What we found

ISO rules

The number of ISO rules compliance matters declined modestly in 2014 after leveling off in 2013. Fewer expected changes to ISO rules after ongoing refinements in recent years, augurs well for a further decline in compliance matters going forward. The distribution of compliance events across ISO rules corresponded to the most frequent generator activities including declaring and restating availability of generating facilities to the AESO, as well as accepting and responding to instructions issued by the AESO to maintain or alter output levels. Compliance issues related to ISO Rule section 203.3 (Energy Restatements) grew more frequent in 2014 and suggests participants should review work procedures and training in this area. It is noteworthy that 34 of the 47 NSPs issued in relation to ISO rules matters were issued as first contraventions within a 12 month period. This is reflected in the relatively small financial total for these penalties and demonstrates that rules compliance issues in 2014 were generally broad based and intermittent although a small minority of participants had more frequent compliance issues warranting additional and more substantial specified penalties.

Alberta Reliability Standards

Work flow in 2014 saw a substantial increase driven primarily by the flow of AESO referrals following from the completion of more reliability compliance audits. To a lesser extent, growth can be attributed to the increased number of approved standards. The CIP-001 and PRC-001 standards attracted most specified penalties as the two most commonly applicable standards. CIP-001 relates to maintaining procedures and training to support the recognition and reporting of sabotage events. PRC-001 relates to procedures and training in the operation of protective relays and other grid protection systems. In 2014 the MSA issued the first specified penalty in respect of the FAC-003 standard which relates to vegetation management by transmission facilities owners. This standard carries the highest specified penalty defined in AUC Rule 027. The higher total of financial penalties issued for standards contraventions is both a function of increased throughput coupled with the generally higher penalty amounts specified by

the AUC for contraventions of reliability standards. On behalf of the MSA, WECC conducted a scheduled compliance audit of the AESO in October resulting in no contraventions or findings requiring further actions by the MSA. WECC is the NERC regional entity with responsibility for monitoring compliance with NERC standards by power sector entities operating in the Western United States. WECC assists the MSA in oversight of the AESO by way of a services agreement.

Numbers at a Glance:

- 454 ISO rules compliance matters addressed in 2014, down from the 477 matters addressed in 2013.
- Self-reporting continued to play a prominent role in 2014 accounting for 84% of compliance matters received by the MSA.
- 47 notices of specified penalty issued for contraventions of ISO rules for a total of \$40,250 in financial sanctions. No specified penalties were disputed or remained unpaid.
- 133 Alberta Reliability Standards compliance matters addressed in 2014, up from the 62 addressed in 2013. The increase was driven largely by increased AESO referrals.
- 21 notices of specified penalty issued for contravention of Alberta Reliability Standards totaling \$155,000 in financial penalties. No specified penalties were disputed or remained unpaid. Specified penalties are generally set at higher levels in AUC Rule 027 relative to AUC rule 019.
- In 2014, no ISO rules or Alberta Reliability Standards matters were the subject of an administrative proceeding.
- In 2014, the AUC initiated a consultation process to revise Rule 019. The new Rule 019 was approved in December of 2014 with an effective date of January 1, 2015.

1. Introduction

The MSA's mandate includes compliance enforcement with respect to contraventions of ISO rules and Alberta Reliability Standards. The goal of the MSA's compliance process is to create a culture of compliance and accountability in the industry. The MSA will issue penalties in certain circumstances to remind participants of their obligations and to promote good compliance practices. However, the MSA is committed to working with participants in a cooperative fashion to understand and resolve underlying issues leading to events of non-compliance. Where non-compliance stems from a lack of clarity in language or expectations, the MSA has and will continue working to correct these situations.

The report is organized as follows:

- Section 2 provides an overview of key developments affecting compliance enforcement in 2014.
- Section 3 provides a description of ISO Rule compliance matter dealt with in 2014.
- Section 4 provides a description of Alberta Reliability Standards compliance matters dealt with in 2014.

2. Statutory Development

In 2014, the AESO continued to transition ISO Rules and Operating Policies and Procedures (OPPs) into the new format. Since the AESO assumed all functions relating to the role of Reliability Coordinator for Alberta on September 11, 2013, effective January 1, 2014, new Reliability Standards were adopted in recognition of this added responsibility. No amendments were made to Rule 027 in 2014.

2.1 AUC Rule 019

On October 1, 2014, the Alberta Utilities Commission (AUC) released Bulletin 2014-13 initiating a public consultation process to amend Rule 019. In the bulletin the AUC proposed that ISO rule sections 203.3, 3.6.2, and 3.6.3 should be moved to Category 3 in the penalty matrix from Category 2 where the rules resided previously. This was proposed because of the cross-references in conduct between those rules and ISO rule section 203.6 that was already in Category 3. The AUC also proposed to add ISO rule sections 306.5 and 306.4 to the penalty matrix. These rules were newly created in the AESO's transition of authoritative documents initiative, replacing ISO rule 5.2 and parts of OPP 601.

The MSA submitted comments in response to Bulletin 2014-13, supporting the AUC's recommendation that ISO rule sections 203.3, 203.6, 3.6.2, and 3.6.3 should reside within the same category in the penalty matrix. The MSA further suggested the addition of ISO rule sections 306.3 and 306.6 along with ISO rule sections 306.4 and 306.5 as proposed by the AUC. Given that the new operating reserve rules (ISO rule sections 205.1, 205.2, 205.3, 205.4, 205.5, and 205.6) were expected to come into effect by the end of 2014, the MSA also proposed that the Rule 019 consultation be extended such that the new rules could be incorporated into the penalty matrix.

On December 5, 2014, the AUC issued Bulletin 2014-16, containing approved amendments to Rule 019, effective January 1, 2015. The approved amendments are summarized as follows:

Table 2.1: AUC Rule 019 Amendments

Penalty Table Category	ISO Rule Deletions	ISO Rule Additions
Category 1		306.3, 306.4, 306.5, 306.6
Category 2	3.6.2, 3.6.3, 203.3, 5.2	
Category 3		3.6.2, 3.6.3, 203.3

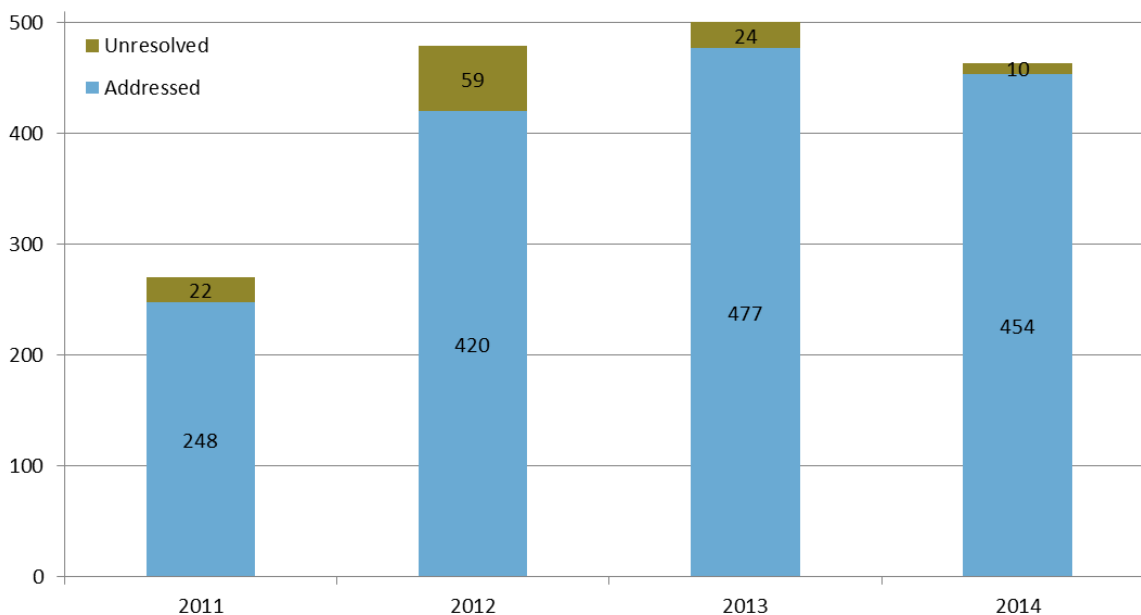
3. ISO Rules Enforcement

3.1 Activity Levels

The MSA addressed 454 ISO rules related compliance files in 2014. Of the 454 files, 47 resulted in a notice of specified penalty and 407 resulted in forbearance. No compliance matters were brought before the AUC for a hearing or other proceeding and none of the notices of specified penalty issued were disputed or remained unpaid. At the end of 2014, 10 files remained unresolved.

In 2013, the MSA addressed 477 ISO rules compliance files, resulting in 45 notices of specified penalty and 432 notices of forbearance. As noted in previous reporting, we are observing a leveling out of ISO rules compliance matters received. This can be attributed to the growing effectiveness of compliance programs in industry and the ongoing work by AESO and industry to refine the ISO rules.

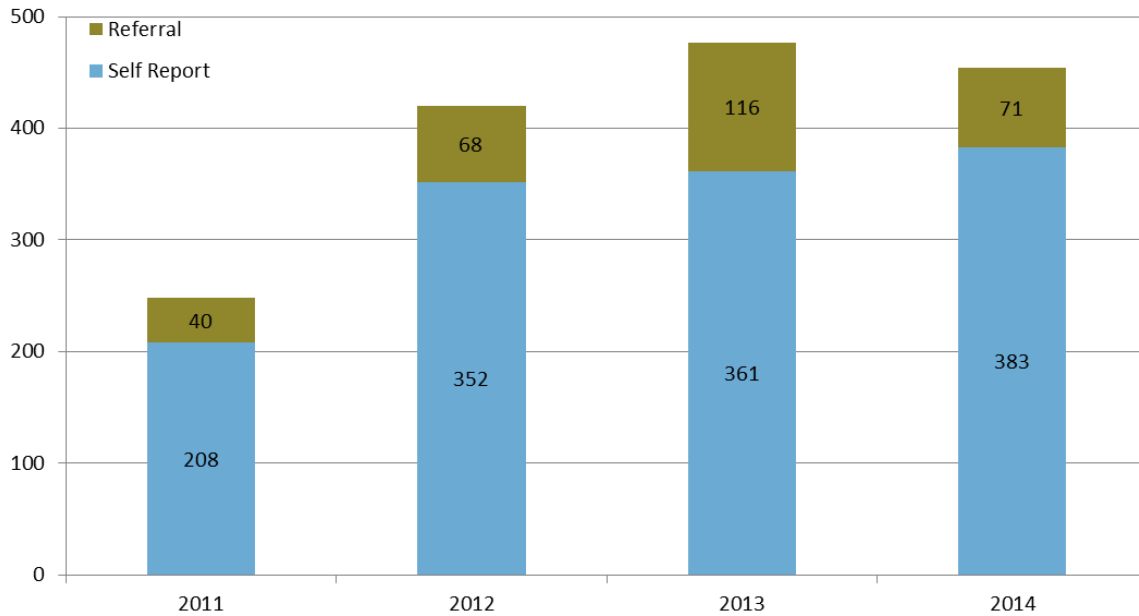
Figure 3.1: ISO Rules Compliance Matters Addressed



Of the 454 ISO rules compliance files addressed in 2014, 383 were self-reported (84.4% of the total) and 71 were prompted by AESO referrals (15.6%). The decrease in the number of referrals is a positive indicator of good compliance monitoring by participants. Out of the 383 self-reported ISO rules matters received in 2014, 24 matters or 6.3% received a notice of specified penalty. While self-reports are seen more favourably than compliance matters that are referred to the MSA by the AESO, the MSA has issued notices of specified penalty for self-reported compliance matters in cases when the self-reported contraventions have, in its view, not satisfied all of the criteria set out in the MSA compliance process. On the other hand, 23 out of 71 referrals¹ (32%) were issued notices of specified penalty.

¹ The MSA may open multiple files to process a single referral in certain cases depending on the details of the matter being referred. Accordingly, the total number of matters prompted by a referral addressed in a particular year may not reflect the total referrals received from the AESO.

Figure 3.2: ISO Rule Self-Reports vs. AESO Referrals



In 2014, 32 ISO rules and OPPs were identified in a self-report or referral. This is lower than the number of rules identified in 2013 by 5 rules or OPPs. While 2013 was characterized by a degree of split counting similar authoritative content under different rules coming into and out of effect, 2014 saw less of that effect as the transition of authoritative documents initiative comes to an end. Figure 3.3 shows that the concentration of compliance matters is in ISO rules that govern the most common market activities including energy offers, restatements, dispatches, and delivery of energy or ancillary services.

Figure 3.3: 2014 Compliance Matters Addressed by ISO Rule

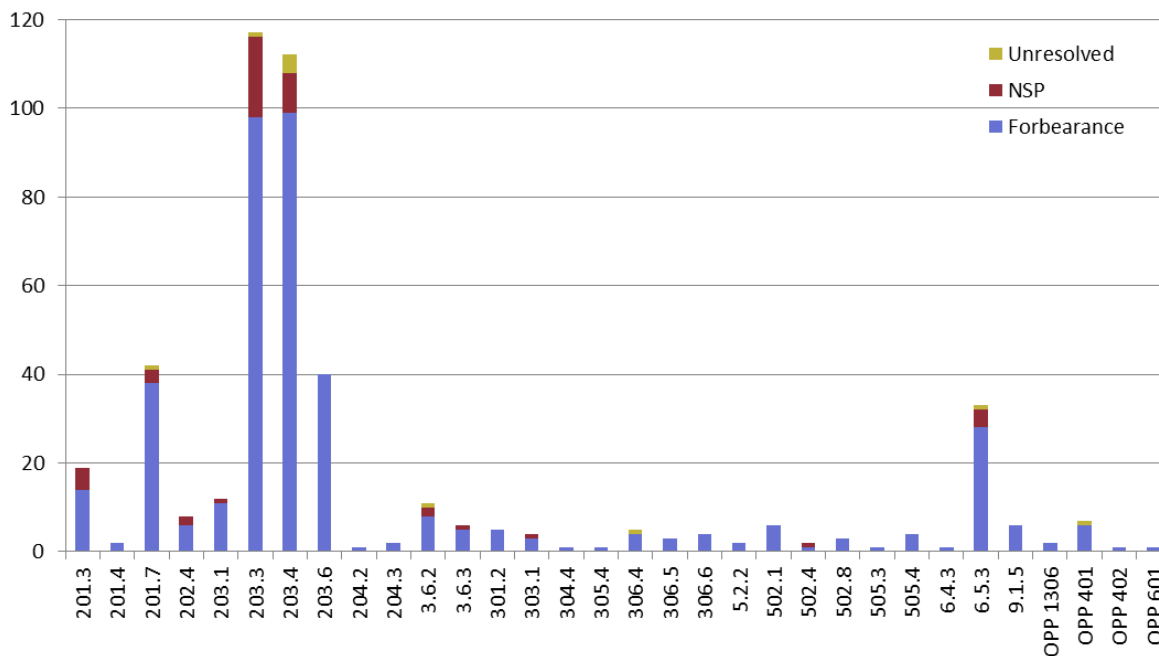


Table 3.1 shows the breakdown of compliance matters by month and the relevant rule contravened. 59 matters addressed this year had contravention dates in 2013. This includes the 24 files carried over from 2013. ISO rule 9.1 matters are generally referred through an alternative process, the contravention months of all rule 9.1 matters cannot be summarized in the table. As such, for the purposes of this report, the rule 9.1 compliance matters are marked by the month the matter was received by the MSA.

Table 3.1: Compliance Matters Addressed by Month of Contravention

	Rule	2013						2014												Total							
		Q1	Q2	Q3	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec								
Forbearance	201.3			3	1	3	2					2	2	1													14
	201.4							1	1																		2
	201.7						1	13	3	6		3	1	3	1	3	2	2									38
	202.4														2	3											6
	203.1	1			1	1			3		1	1	1			1											11
	203.3			2		2	7	7	1	9	6	11	13	8	11	8	8	5									98
	203.4					5	4	16	7	9	14	8	11	9	5	3	4	4									99
	203.6						2		8	4	5	6	3		7		4	1									40
	204.2							1																			1
	204.3										1								1								2
	3.6.2					3						1	1	1	1	1											8
	3.6.3								4	1																	5
	301.2							1	1			1	1									1					5
	303.1													1								2					3
	304.4							1																			1
	305.4										1																1
	306.4													1		2	1										4
	306.5												1		1		1										3
	306.6				1				3																		4
	5.2.2						1			1																	2
	502.1									3		3															6
	502.4																		1								1
	502.8				1				1		1																3
	505.3				1																						1
	505.4											2	1			1											4
	6.4.3																					1					1
	6.5.3			2	1				2	3	4	2	1	4		2	5							2			28
9.1.5						1				1	1		2		1						1					6	
OPP 1306																1										2*	
OPP 401							1	2						2		1										6	
OPP 402													1													1	
OPP 601								1																		1	
Total	1	0	7	6	14	18	41	37	36	37	41	37	29	29	24	33	14	2								407	
NSP	201.3			1	3	1																					5
	201.7			1						2																	3
	202.4															1	1										2
	203.1			1																							1
	203.3					2	1	1	1	1	2	2	5		1	2											18
	203.4			1			2	2		1	2				1												9
	3.6.2								1					1												2	
	3.6.3									1																	1
	303.1														1												1
	502.4											1															1
	6.5.3							1		1					1		1										4
	Total	0	0	4	3	3	3	4	2	6	5	2	5	3	2	4	1	0	0								47
Unresolved	201.7																								1	1	
	201.7																								1	1	
	203.3																								1	1	
	203.4																								4	4	
	3.6.2																								1	1	
	306.4																								1	1	
	6.5.3													1												1	
OPP 401	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	6	3							10	

In 2014, the MSA issued 47 notices of specified penalty for ISO Rules compliance matters, totalling \$40,250. Overall, 26 market participants were issued notices of specified penalty this year compared to 22 in 2013. The majority (72%) of the notices of specified penalty issued in 2014 were for first contraventions of an ISO rule by an asset within a rolling 12 month period. First contravention penalties are at the low end of the applicable ranges, and explains why the total dollar value of 2014 specified penalties was lower (\$40,250) compared to 2013 (\$60,250) while the number of specified penalties issued was greater by two. This is a positive indicator that fewer recurring contraventions occurred in 2014 and compliance issues were for the most part, intermittent and broadly distributed.

Table 3.2: Specified Penalties Issued in 2014 for Contravention of ISO Rules

Market Participant	ISO Rule											Total
	201.3	201.7	202.4	203.1	203.3	203.4	3.6.2	3.6.3	303.1	502.4	6.5.3	
ASTC Power Partnership					\$500							\$500
ATCO Power Canada Ltd.											\$250	\$250
Alberta Newsprint Company									\$250		\$250	\$500
Alberta-Pacific Forest Industries					\$250	\$2,750						\$3,000
Algonquin Power Operating Trust					\$1,500							\$1,500
AltaGas Ltd.					\$500		\$500	\$250				\$1,250
Balancing Pool	\$1,000				\$250							\$1,250
Capital Power PPA Management Inc.					\$500							\$500
Cenovus Energy Inc.	\$1,500											\$1,500
Cenovus FCCL Ltd.		\$250				\$1,500						\$1,750
Daishowa-Marubeni International Ltd.					\$750							\$750
ENMAX PPA Management Inc.					\$250							\$250
Imperial Oil Limited					\$500							\$500
Irrigation Canal Power Cooperative Ltd.					\$500					\$500		\$1,000
MEG Energy Corp.				\$500	\$2,000	\$1,500						\$4,000
Milner Power L.P. by its G.P. Milner Power Inc.	\$1,500											\$1,500
Nexen Inc.	\$500											\$500
Northpoint Energy Solutions Inc.					\$250							\$250
Northstone Power Corp.											\$250	\$250
Powerex Corp.		\$1,250	\$1,000		\$1,500	\$10,000	\$250					\$14,000
Syncrude Canada Ltd.						\$750						\$750
Talisman Energy Canada (Edson)					\$500							\$500
TransAlta Corporation					\$500							\$500
TransAlta Generation Partnership											\$1,500	\$1,500
TransCanada Energy Ltd.						\$1,500						\$1,500
University of Calgary					\$500							\$500
Total	\$4,500	\$1,500	\$1,000	\$500	\$10,750	\$18,000	\$750	\$250	\$250	\$500	\$2,250	\$40,250

3.2 Performance Measures – 2014 Compliance Activities

The MSA has generally targeted to resolve ISO rules compliance matter within 30 days of receipt of the referral or self-report. The resolution times for compliance matters improved in 2014 compared to 2013. This was in part, due to the decrease in the number of files received by the MSA in 2014 compared to 2013. In 2014, compliance matters were addressed on average, 60 days following the event date - a decrease from 71 days in 2013. The average number of days from the date of the contravention to receipt of the self-report or referral by the MSA in 2014 was 44 days versus 53 days in 2013; once received the MSA processed the files within 11 days on average. For compliance matters that resulted in forbearance, the matters were resolved in an average of 55 days compared to 66 days in 2013. For files that resulted in a notice of specified penalty, the matters were resolved in 16 days on average from the date of self-report or referral compared to 22 days in 2013. While most compliance matters were resolved in a short period of time, due to the low number of matters the MSA receives for some ISO rules, as well as, differing requirements between rules, some rules have higher average overall resolution rates compared to others.

Rule 9.1 related matters were excluded from this table as event timelines and enforcement processes for this rule differs significantly from other ISO rules.

Table 3.3: Timeliness of Compliance Event Resolution (Days)

	Event Date to Referral Date [A]			Referral Date to Issuance Date [B]			Event Date to Issuance Date [C] = [A] + [B]		
	NSP	Forbearance	All files	NSP	Forbearance	All files	NSP	Forbearance	All files
201.3	246.2	161.9	184.1	13.2	9.6	10.6	259.4	171.5	194.6
201.4		26.5	26.5		11.0	11.0		37.5	37.5
201.7	65.3	14.4	18.1	10.0	9.5	9.5	75.3	23.9	27.7
202.4	27.0	23.8	24.6	10.0	17.2	15.4	37.0	41.0	40.0
203.1	112.0	67.8	71.5	46.0	15.2	17.8	158.0	83.0	89.3
203.3	82.7	34.1	41.6	14.7	10.4	11.0	97.4	44.5	52.7
203.4	51.7	26.3	28.4	24.2	10.6	11.7	75.9	36.8	40.1
203.6		13.0	13.0		7.7	7.7		20.7	20.7
204.2		22.0	22.0		11.0	11.0		33.0	33.0
204.3		20.0	20.0		9.0	9.0		29.0	29.0
3.6.2	49.5	97.8	88.1	10.5	8.8	9.1	60.0	106.5	97.2
3.6.3	8.0	2.2	3.2	8.0	5.4	5.8	16.0	7.6	9.0
301.2		25.8	25.8		6.6	6.6		32.4	32.4
303.1	47.0	15.7	23.5	23.0	20.7	21.3	70.0	36.3	44.8
304.4		30.0	30.0		10.0	10.0		40.0	40.0
305.4		36.0	36.0		21.0	21.0		57.0	57.0
306.4		18.5	18.5		13.3	13.3		31.8	31.8
306.5		20.0	20.0		17.7	17.7		37.7	37.7
306.6		210.5	210.5		4.5	4.5		215.0	215.0
5.2.2		25.0	25.0		11.0	11.0		36.0	36.0
502.1		173.0	173.0		15.0	15.0		188.0	188.0
502.4	124.0	30.0	77.0	21.0	10.0	15.5	145.0	40.0	92.5
502.8		42.3	42.3		13.7	13.7		56.0	56.0
505.3		346.0	346.0		9.0	9.0		355.0	355.0
505.4		21.3	21.3		6.5	6.5		27.8	27.8
6.4.3		29.0	29.0		10.0	10.0		39.0	39.0
6.5.3	37.0	21.8	23.7	4.0	14.2	12.9	41.0	36.0	36.6
OPP 1306		1329.5	1329.5		14.0	14.0		1343.5	1343.5
OPP 401		26.0	26.0		11.5	11.5		37.5	37.5
OPP 402		1.0	1.0		8.0	8.0		9.0	9.0
OPP 601		124.0	124.0		7.0	7.0		131.0	131.0
Average	84.5	43.8	48.0	15.6	10.6	11.1	100.1	54.4	59.2

3.3 2014 Compliance Trends

3.3.1 ISO Rule Section 201.3

ISO rule section 201.3: Offer Control Information requires market participants to submit offer control information within 30 days after the settlement interval. The rule became effective on December 3, 2012 and caught many participants unaware leading to 53 compliance matters in 2013, which decreased in 2014 to 19 matters. In October of 2014 the AESO implemented enhancements in the Energy Trading

System (ETS) where a warning is displayed when the submission of an offer declaration is attempted that does not include offer control information. Also, on January 21, 2015, a report was made available in ETS where participants can search historical offers and review these offers for missing offer control information. The MSA expects that these systems enhancements will further reduce the number of compliance matters related to ISO rule section 201.3 going forward.

3.3.2 ISO Rule Section 203.3

In 2013, the number of compliance matters addressed in relation to ISO rule section 203.3 – Energy Restatements (including its precursor 3.5.3) was 83. In 2014, the MSA addressed 117 files regarding this rule. 33 market participants were referred or self-reported a contravention of this rule. ISO rule 203.3 is a broad rule that governs the conditions for restatement for many common market activities. Many of the files received by the MSA pertained to erroneous available capability (AC) declarations.

3.3.3 ISO Rule Section 203.6

ISO rule section 203.6: Available Transfer Capability and Transfer Path Management became effective on August 13, 2013. Through the balance of 2013, 8 compliance matters relating to this rule was addressed by the MSA and in 2014, 40 compliance matters were addressed. Contraventions to ISO rule section 203.6 is typically of subsection 6(4)(b) which indicates that participants are required to submit a restatement for energy or ancillary services in the event that their available capability has changed in accordance with ISO rule section 203.3, as well as ISO rules 3.6.2 and 3.6.3, respectively.

4. Alberta Reliability Standards Enforcement

The following standards were approved by the AUC with effective dates in 2014: BAL-005-AB-0.2b, EOP-001-AB-2b, and MOD-010&012-AB-0. BAL-002-WECC-AB-2 was approved in 2014 with an effective date in the same year. Requirement 6 (R6) of PRC-023-AB-2 became effective in 2014, while the standard itself was approved in 2012. In 2015, requirements 1 through 5 of this standard will be effective for transmission lines operated at 200 kV or greater and transformers with low voltage terminals connected at 200 kV or greater. The following standards were amended in 2013 with effective dates in 2014: COM-002-AB1-2a, EOP-002-AB1-2, and EOP-004-AB2-1.

To carry out the Reliability Coordinator function, the AESO filed: IRO-001-AB1-1.1, IRO-002-AB-2, IRO-003-AB-2, IRO-005,AB-3.1a, IRO-006-AB-5, IRO-006-WECC-AB-2, IRO-008-AB-1, IRO-010-AB-1a, IRO-014-AB-1, IRO-015-AB-1, and IRO-016-AB-1 with the AUC on October 6, 2014 with an effective date of April 1, 2015. The following standards were also filed with the AUC in 2014 with effective dates in 2015: FAC-501-WECC-AB2-1, PRC-001-AB2-1, BAL-004-WECC-AB1-1, COM-001-AB1-1.1, EOP-001-AB1-2b, and PER-004-AB-2. Of the standards listed above, only FAC-501-WECC-AB2-1 will be applicable to registered entities. The AESO also filed CIP-002 through CIP-011 version 5 with the AUC on September 29, 2014. Objections were filed by several registered entities and, at the time of writing, a proceeding is underway before the AUC.

4.1 Monitoring and Enforcement for Registered Entities

The AESO is the compliance monitor with respect to registered entities in Alberta and carries out its compliance monitoring mandate in accordance with ISO Rule 103.12 and its Compliance Monitoring Program (CMP) developed in consultation with stakeholders. In conjunction with its mandate and CMP, compliance monitoring activities including scheduled reliability compliance audits could result in a referral to the MSA if non-compliance with an applicable standard is evident. However, registered entities can self-report suspected non-compliance directly to the MSA (as described more fully in the MSA Compliance Process). Self-reports have the prospect of forbearance or at minimum, more favourable treatment relative to a referral; if reported promptly and effectively mitigated.

4.2 Monitoring and Enforcement for AESO

The MSA has oversight responsibilities for compliance of registered entities, as well as the AESO. In respect of the AESO, the MSA is assisted by the Western Electricity Coordinating Council (WECC)² by way of a services agreement between the MSA and WECC. As noted above, the bulk of Reliability Standards effective in Alberta are applicable to the AESO given the scope of its responsibilities and consequently, its mandate to maintain system stability and reliability. Having taken on the responsibilities of reliability coordinator from WECC effective January 1, 2014, additional Reliability Standards pertaining to these additional responsibilities were filed during 2014; some of which will become effective in 2015.

The MSA and WECC are guided by the Alberta CMP as applied to registered entities, although an Implementation Plan is developed annually to confirm the scope of compliance monitoring including any intended deviations from the Alberta CMP. In Q4/14, the MSA and WECC jointly developed a 2015 Implementation Plan which was approved by the MSA in January. In accordance with the

² WECC is the regional entity responsible for assuring the reliability of the Bulk Electric System in the Western Interconnection (<https://www.wecc.biz/Pages/home.aspx>).

Implementation Plan, the AESO is required to self-certify compliance with all applicable standards following cycle 3 of the self-certification schedule included in the Alberta CMP.

Consistent with the compliance monitoring program applied to registered entities, the AESO is also subject to regular compliance audits regarding applicable Alberta Reliability Standards. In this regard, a scheduled compliance audit of the AESO was conducted on the MSA’s behalf by WECC in 2014. The audit did not return any findings or contraventions of Reliability Standards warranting further actions by the MSA. The next AESO compliance audit is tentatively scheduled for 2017.

4.3 Activity Levels – ARS

In 2014, 133 Reliability Standards compliance matters were addressed, 14 of which were carried over from 2013. Thus, 126 new Reliability Standards compliance matters were opened within the year, 7 of which remained under review at year end and carried over to 2015. Of the 133 Reliability Standards compliance matters addressed, 57 resulted in a notice of specified penalty. The MSA has, at its discretion, compiled more than one contravention of a Reliability Standard into a single notice of specified penalty in some instances. However, for administrative purposes, suspected contraventions of individual standard requirements are tracked separately. In other words, 57 standard requirement contraventions were addressed through the issuance of 21 notices of specified penalty.

For comparison, the MSA addressed 62 Reliability Standards compliance matters in 2013. The increase in Reliability Standards compliance matters can be attributed to an increase in AESO compliance audit activities, more self-reports by registered entities, and an increase in the number of standards applicable to registered entities. In 2014, the MSA received 90 referrals and 43 self-reports while, in 2013 37 referrals and 25 self-reports were made to the MSA.

Figure 4.1: 2014 Reliability Standards Outcomes

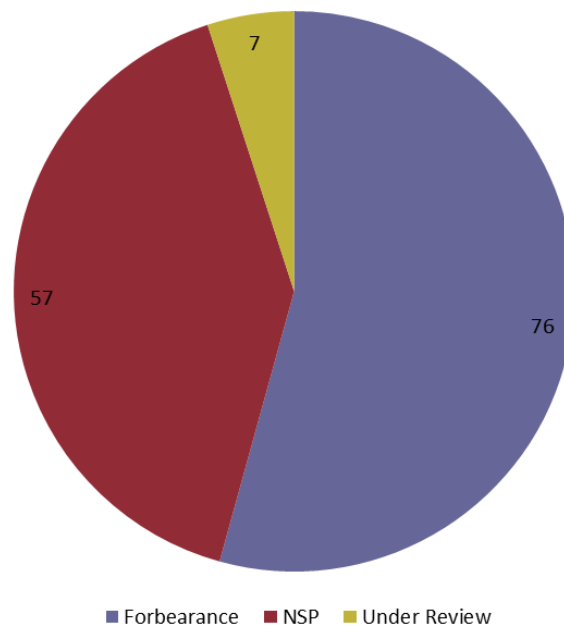


Figure 4.2 shows the outcomes of Alberta Reliability Standards compliance files by standard. The figure shows that CIP-001 and PRC-001 were the standards most referred to the MSA due to their broad applicability to registered entities. As a result, the standards are frequently the subject of self-reports and

AESO compliance audit referrals. The AESO conducted compliance audits according to all applicable standards during 2014 (as applicable to functional entity type), and the number of Reliability Standards applicable to registered entities other than the AESO has grown, as a result, the number of standards that were dealt with by the MSA increased from 11 to 14 between 2013 and 2014.

Figure 4.2: 2014 ARS Compliance Matters by Standard

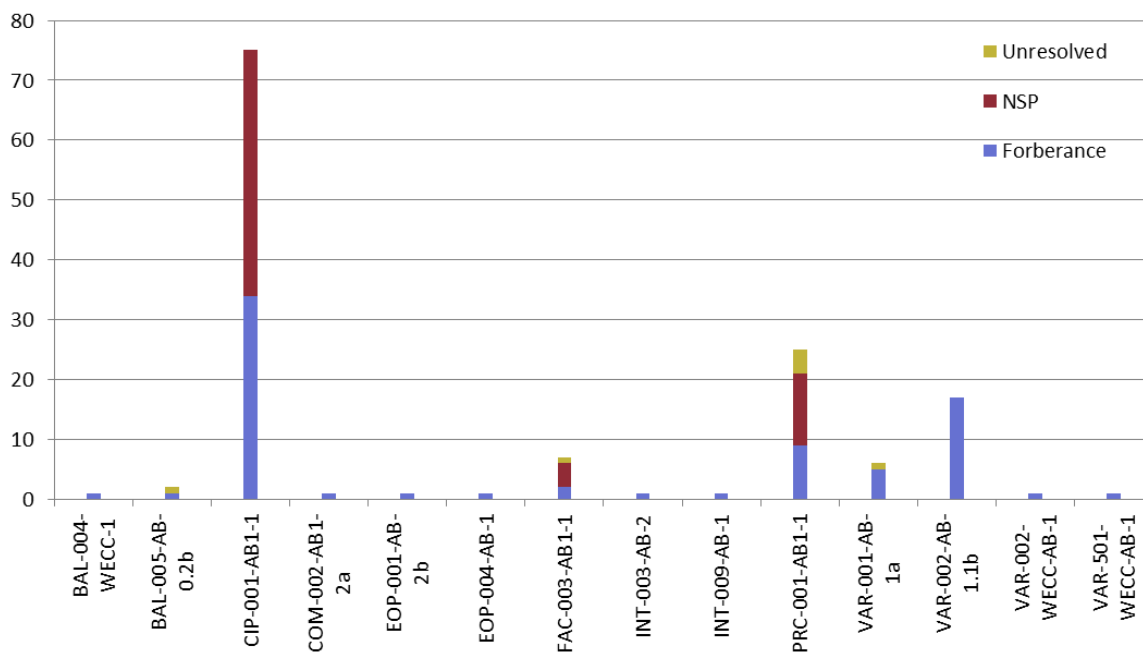


Table 4.1 breaks down the specified penalties issued in 2014 by Reliability Standard and registered entity. The total amount in penalties issued to participants increased from 2013 due to the increase in the number of referrals received by the MSA this year. As well, specified penalties are generally set at higher dollar values for Alberta Reliability Standards relative to specified penalties set out for the ISO rules.

While the majority of notices of specified penalty were issued for CIP-001 and PRC-001 contraventions, a notice of specified penalty was issued in 2014 for a contravention of FAC-003. This standard carries the highest specified penalty (\$25,000) prescribed in AUC Rule 027 among all Alberta standards and is one of several standards for which Rule 027 prescribes one specified penalty amount for each instance of contravention. The FAC-003 specified penalty included in Table 4.1 was adjusted downward in recognition of an applicable self-report as contemplated in Rule 027.

Table 4.1: Specified Penalties Issued in 2014 for Contravention of Reliability Standards

Registered Entity	Alberta Reliability Standard			Total
	CIP-001-AB1-1	FAC-003-AB1-1	PRC-001-AB1-1	
ATCO Power Canada Ltd.	\$7,500			\$7,500
Air Liquide Canada Inc.	\$10,000		\$5,000	\$15,000
Alberta-Pacific Forest Industries	\$7,500		\$3,750	\$11,250
Canadian Hydro Developers			\$3,750	\$3,750
Canadian Natural Resources Ltd.	\$7,500	\$18,750		\$26,250
Dow Chemical Canada ULC	\$10,000			\$10,000
FortisAlberta Inc.	\$10,000			\$10,000
Ghost Pine Windfarm LP			\$5,000	\$5,000
Kinder Morgan Canada Inc.			\$5,000	\$5,000
MEG Energy Corp.	\$10,000		\$5,000	\$15,000
Milner Power Limited Partnership	\$10,000		\$5,000	\$15,000
NOVA Chemicals Corporation	\$7,500			\$7,500
Nexen Inc.	\$7,500			\$7,500
Shell Canada Limited	\$7,500		\$5,000	\$12,500
TransAlta Generation Partnership			\$3,750	\$3,750
Total	\$95,000	\$18,750	\$41,250	\$155,000

4.4 2014 Compliance Trends

4.4.1 CIP-001-AB1-1

CIP-001 continued to be a standard that is frequently self-reported or referred to the MSA. In 2014, 75 compliance matters were opened in relation to the requirements within this standard and 11 notices of specified penalty were issued. Typically at issue is that evidence demonstrating training requirements have been met was not adequate to demonstrate compliance with the standard. The MSA expects that the replacement of CIP-001 with EOP-004-AB-2: Event Reporting will resolve some of the issues that have arisen under CIP-001.

4.4.2 PRC-001-AB1-1

The number of compliance matters addressed related to PRC-001 has remained steady over the year. In 2014, 9 notices of specified penalty were issued with respect to PRC-001 contraventions. This is an increase from 2013 where the number of notices of specified penalty issued for this standard was 5. Contraventions of this standard typically relate to inadequate evidence to demonstrate that all operating personnel have received applicable training as required by the standard or that the training material inadequately covers the protection systems in the area.

4.4.3 VAR-002-AB-1.1b

VAR-002 related compliance matters increased in 2014 with 17 matters addressed compared to 3 matters addressed in the previous year. 2014 was the first full year where the standard was enforced as the standard became effective on October 1, 2013. Matters relating to this standard usually cite that the Automatic Voltage Regulator (AVR) or Power System Stabilizer (PSS) was not turned on or when these instruments were off the AESO was not informed.

4.4.4 Completion of Mitigation Plans

The MSA continues to be supportive of mitigation plans given that they demonstrate commitment by an entity to rectify the circumstances leading to a compliance issue in a timely manner. Accordingly, the MSA believes they can be an effective complement to, and where appropriate, a substitute for financial sanctions. In cases where it is evident that an entity has not fulfilled its obligations pertaining to an

accepted mitigation plan, the MSA is likely to proceed with additional enforcement action. The MSA favours mitigation plans demonstrating that corrective actions were initiated promptly and will be complete within a reasonable time frame. The MSA has in certain cases required a shorter completion period as a condition of accepting a mitigation plan.

5. Outlook

2014 confirmed a leveling out of ISO rules compliance matters received by the MSA and this is expected to continue, as ISO rules changes decrease and participants become more familiar with existing ISO rules. Of course this is predicated on the continued vigilance of participants in the Alberta market with respect to internal compliance programs and training. The area of Reliability Standards is more dynamic given the considerable increase in the number of Standards approved as applicable in Alberta. The majority of Alberta standards are only applicable to the AESO and more so in 2015 due to reliability coordinator (RC) related standards. The challenge on the horizon for many entities will be preparation for the broad suite of version 5 CIP standards, the timing of which is dependent upon AUC approval which is delayed by the related proceeding currently underway. The MSA remains committed to working cooperatively with the AESO and industry toward our joint objective of ensuring an effective and reliable wholesale electricity sector in Alberta.

References

AESO

ISO Rules

<http://www.aeso.ca/rulesprocedures/18592.html>

Alberta Reliability Standards

<http://www.aeso.ca/rulesprocedures/17004.html>

AESO Reliability Standards Compliance Monitoring Program

http://www.aeso.ca/downloads/ARS_CMP_Final_v1.1.pdf

Alberta Utilities Commission

AUC Rules

<http://www.auc.ab.ca/acts-regulations-and-auc-rules/rules/Pages/default.aspx>

Legislation

Alberta Utilities Commission Act

http://www.qp.alberta.ca/574.cfm?page=A37P2.cfm&leg_type=Acts&isbncln=9780779751396

MSA

MSA Compliance Process

<http://albertamsa.ca/uploads/pdf/Archive/2012/Compliance%20Process%20062512.pdf>

MSA WECC Services Agreement

<http://albertamsa.ca/index.php?page=notice-re-msa-wecc-services-agreement--monitoring--reliability-standards-compliance>

MSA Quarterly Reports

<http://albertamsa.ca/index.php?page=quarterly-reports>



The Market Surveillance Administrator is an independent enforcement agency that protects and promotes the fair, efficient and openly competitive operation of Alberta's wholesale electricity markets and its retail electricity and natural gas markets. The MSA also works to ensure that market participants comply with the Alberta Reliability Standards and the Independent System Operator's rules.