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# MSA REPORT

## Information Asymmetry in Alberta's Forward Market – Seeking Solutions

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**MARKET SURVEILLANCE**  
ADMINISTRATOR

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# 1 INTRODUCTION

This report follows from a paper published by the Market Surveillance Administrator (MSA) – “**MSA Trading Practices Guideline**” - which addressed a fundamental market issue around the asymmetry of outage and derate information. The report may be accessed at <http://www.albertamsa.ca/455.html>.

The Information Disclosure Procedure (IDP) outlined in this report is in support of the Trading Practices Guideline (TPG). The report outlines an Interim IDP, which will commence March 8, 2004, and proposes a framework for developing a revised IDP which may replace the Interim IDP, both of which would relate to the intent of the Trading Practices Guideline (TPG). In particular, the IDP is designed to assist market participants with their TPG compliance requirements by facilitating the disclosure and publication of outage and derate information (collectively referred to as “outage information”).

## 1.1 Key Principle

The MSA has determined that the *potential* for trading on future outage information that is not in the public domain creates the *perception* and/or *reality* of unfairness in the forward market. Such behaviour or its *potential* impairs the development of forward market liquidity and is detrimental to the evolution of Alberta’s wholesale and retail power markets.

In the real time market, Pool prices respond to unit outages; therefore, advanced knowledge of such outages puts a participant at a material advantage over other participants in the forward market because it ultimately settles against the real time market. In a sufficiently sized commodity market, which is efficient and liquid, individual asset information normally does not affect forward market prices. However, due to the unique characteristics of the Alberta electricity market, asset specific information can have an impact on forward market prices. This situation sets up the possibility for a circumstance analogous to *insider trading* in securities markets.

## 1.2 Trading Practices Guideline

The MSA has established the following Trading Practices Guideline (TPG):

***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.***

The TPG applies to any market participant who has preferential access to outage information on assets that have the ability to materially affect forward market prices. The MSA will commence monitoring for compliance and enforcement of the TPG effective March 8, 2004. The TPG is a stand-alone principle and exists separately from any procedures discussed in this report. Notwithstanding the outcome of discussions pertaining to or the results of the MSA’s interim or proposed IDP, the spirit of the TPG and the MSA’s intent to monitor for compliance remains.

As noted in the TPG report, disclosure of information is seen to further the *fair, efficient, and openly competitive* operation of the market. There are several reasons for this view. Firstly, the market gains efficiency through information disclosure because it facilitates effective decision making. Secondly, the market gains in its ability to effectively monitor for inappropriate conduct. Both of these reasons lead to confidence in the market which is the goal of both the TPG and the IDP.

### 1.3 Key Definitions

For greater clarity and to promote a common understanding, the MSA is adopting a number of definitions from the *Electric Utilities Act*, SA 2003, cE – 5.1 (the “Act”), and from terms used by the Alberta Electric System Operator (AESO).<sup>1</sup> Key definitions used in the reports are listed below:

**Market Participant:** Any person that supplies, generates, transmits, distributes, trades, exchanges, purchases, or sells electricity, electric energy, electricity services or ancillary services.<sup>2</sup>

**Asset:** An asset includes pieces or groups of equipment required for the purpose of generating, consuming or transmitting of electric energy.

**Outage:** Any full or partial (i.e., derate) unavailability of asset equipment. An outage is considered to have two separate events, that is, an asset is taken off-line and it is returned to service.

**Planned Outage:** The removal of an asset from service for inspection and/or general overhaul of one or more major equipment groups. The work is usually scheduled well in advance.

**Maintenance Outage:** The removal of a generating unit from service to perform work on specific components which could have been postponed past the very next weekend. This work is done to prevent a potential forced outage and which could not have been postponed from season to season.

**Forced Outage:** The occurrence of a component failure or other condition that requires the removal of an asset from service immediately or up to and including the very next weekend.

**Sudden Forced:** A forced outage that requires the immediate removal of the Outage asset from service.

Other terms used in this report are incorporated by reference from the Act.

## 2 INTERIM IDP

The intent of the MSA is to utilize, whenever possible, available resources and procedures in order to minimize effort on the part of market participants. In this regard,

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<sup>1</sup>

[http://ets.powerpool.ab.ca/Market/Reports/Manual/AiesGraphs/process\\_description.html](http://ets.powerpool.ab.ca/Market/Reports/Manual/AiesGraphs/process_description.html).

<sup>2</sup> Section 1(1) (ee), EUA, 2003.

the Interim IDP is based on the AESO's Generating Outage Scheduling Coordination Procedure (AESO Procedures)<sup>3</sup>. Essentially the MSA will, pursuant to its prerogatives under the Act, obtain, aggregate and publish outage information that is already being provided by market participants to the AESO. Based upon discussions with the AESO and upon the observations of the MSA, some participants may need to upgrade their efforts to file timely and accurate outage information. One benefit of the Interim IDP is that there is minimal incremental effort or cost to market participants for disclosing the required outage information.

## **2.1 Applicability**

The TPG applies to any market participant who has preferential access to outage information on assets that have the ability to materially affect forward prices. For the purpose of implementing the Interim IDP, responsibility for disclosure rests with those market participants who are presently submitting outage information to the AESO pursuant to the terms of the AESO Procedures. It is the MSA's expectation that market participants will continue to submit outage information to the AESO notwithstanding their trading status. The AESO Procedures are an essential tool of the AESO for ensuring system reliability. The Interim IDP will provide most market participants with a mechanism to make their information disclosures effective March 8, 2004. Section 3 of this report proposes a more robust and broadly applicable disclosure procedure.

## **2.2 Effective Date and Term**

The Interim IDP will become effective on March 8, 2004 and will remain in place until superceded by the implementation of a revised IDP or until the TPG is rescinded.

## **2.3 Disclosure and Publication of Outage Information**

Information concerning outage schedules will continue to be submitted by market participants to the AESO pursuant to paragraphs 5 and 8 of the AESO Procedures. The MSA will continue to obtain outage information from the AESO pursuant to its mandate under the Act and regulations.

In order to facilitate compliance by market participants with the TPG, on an interim basis the MSA will aggregate outage schedules and prepare reports which will be published on the MSA's website. Initially, it is expected that the MSA will publish outage reports on a weekly basis rapidly moving to publication of daily reports as soon as the necessary support mechanisms can be developed. Ultimately, the MSA contemplates the publication of outage information on a real-time basis as part of the IDP.

## **2.4 Compliance and Enforcement**

The MSA will commence monitoring for TPG compliance on March 8, 2004, which is the date the Interim IDP is planned to be implemented. The MSA will be available to work with participants to provide whatever assistance is necessary to help market participants in complying with the TPG, the Interim IDP and otherwise.

The MSA will investigate complaints regarding breaches of the TPG and conduct audits of market participants' trading activities around outage occurrences. The MSA

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<sup>3</sup> Ibid.

acknowledges that the TPG and the Interim IDP are new features of the Alberta electricity market and will gauge its monitoring and investigation activities accordingly. However, the MSA's expectations will evolve as experience with the TPG and Interim IDP grows.

### **3 PROPOSED IDP TO REPLACE INTERIM IDP**

This section outlines the implementation plan for the disclosure and publication of information on an ongoing basis. The ongoing IDP would essentially be a replacement of the Interim IDP, and would be applicable to all market participants subject to the TPG.

#### **3.1 Applicability**

Noted previously, the TPG applies to any market participant having preferential information on outages that can materially affect forward market prices. Whereas the Interim IDP was narrowly defined in terms of its application to market participants, the proposed IDP would apply to all market participants whose generating, load and transmission assets have an installed capacity greater than a specified amount which could be more or less than the 40 MW threshold stipulated in the AESO Procedures.

#### **3.2 Effective Date**

The proposed IDP would be implemented at the earliest possible date, and would supercede the Interim IDP.

#### **3.3 Disclosure, Submission and Publication of Outage Information**

This section focuses on the MSA's proposal for what specific information would be provided by market participants, how it might be submitted, and the type of reports that would be published.

##### **3.3.1 Disclosure Requirements**

Each market participant subject to the IDP would be required to submit information for all asset outages consistent with the prevailing AESO Procedures.<sup>4</sup> Submission of outage schedule information would be consistent with established AESO policies and procedures.

Outage information to be disclosed would include:

- Unit name;
- Start date/Start time;
- End date/End time;
- Impact (increase or decrease) on generating capacity or load consumption;
- Type of outage – planned, maintenance, forced or sudden forced outage;
- Reason for outage; and
- Detailed reason for change in outage timing.

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<sup>4</sup> Outages include planned, maintenance, forced and sudden forced outages.

The intent of the information disclosure would be to indicate that an asset is not available to generate, consume or transmit energy for *mechanical or operational reasons*. The MSA notes, that in some cases, the bid/offers submitted to the System Controller by market participants implicitly include short-term outage information. Given this practice, market participants have not always submitted outage information in a manner consistent with AESO Procedures. For the purpose of the IDP, outage information would be considered to be independent of any bid/offer information submitted to the System Controller. In this regard, market participants would be expected to separately identify and submit asset outage information as part of the IDP and AESO Procedures notwithstanding outage information that may be embedded in the bid/offer schedules submitted to the System Controller.

### **3.3.2 Submission of Outage Information**

It is proposed that outage information would be submitted by the market participant initially as part of the AESO's annual planning requirement. Thereafter, market participants would, each time a decision is made to schedule a new outage or re-schedule an existing outage, submit revised outage schedule information to the AESO pursuant to established AESO Procedures.

Disclosure by a market participant of outage information in an untimely or misleading manner would be viewed as unsatisfactory in relation to the proposed IDP (as with the Interim IDP) and from the perspective of the TPG, a market participant would not be able to rely this situation as a defense against inappropriate conduct. Such conduct would, as a minimum, raise a flag at the MSA to monitor the trading activities of such participant in a much more rigorous way.

### **3.3.3 Publication of Outage Information**

The MSA will continue to obtain outage information from the AESO pursuant to its mandate under the Act and regulations. This will facilitate the publishing of information by the MSA in furtherance of a *fair, efficient, and openly competitive* market.

The MSA will aggregate information in a manner sufficient to provide a useful signal to market participants about forthcoming changes in the availability status of generating, consuming and transmission assets. For example, reports might be based on fuel type, heat rate, or ramp rates. In addition, the MSA would publish reports to reflect a variety of forward looking time periods. The MSA recognizes that an important consideration is the need to find an "appropriate balance between the rights and need of the asset owners respecting outage information and those of the market at large."

## **3.4 Trading Information**

The MSA does not contemplate regular collection or disclosure of detailed trading information in relation to either the TPG or the IDP. However, the MSA expects that market participants will maintain appropriate corporate policies and procedures, and accurate trading and communication records, sufficient to document and defend their information disclosure (as well as any trading behaviour).

In the view of the MSA, failure by a market participant to maintain adequate records (especially those typically kept in the normal course of business) would be viewed

negatively in relation to any investigation, tribunal or other proceeding pertaining to an alleged breach of the TPG.

### **3.5 Compliance and Enforcement**

While the IDP may require increased diligence from some participants concerning the accuracy and timeliness of reporting outage information, the MSA does not expect that meeting the expectations of the disclosure procedures or the TPG itself will add complexity or cost to market participants' business.

To the extent that the IDP (and Interim IDP) would provide market participants a ready ability to comply with the TPG and sufficient transparency to enable the market to "mutually monitor", the MSA expects that TPG compliance will be adopted quickly and naturally as the new standard of conduct for trading in the forward OTC and exchange markets. The MSA is optimistic that deterrence through transparency will obviate the need for aggressive enforcement. Aiding the MSA in its surveillance will be the natural inclination of parties who feel they have been aggrieved by violations of the TPG to refer them to the MSA.

Further, and notwithstanding the MSA's efforts to design a TPG and supporting IDP which enable mutual surveillance through transparency, the MSA is committed to surveillance and monitoring around both initiatives.

As noted above, monitoring will begin on March 8, 2004. Complaints and investigations into potential breaches of the TPG will be handled as outlined in the MSA's Investigation and Assessment Guidelines, January 26, 2004. Breaches of the TPG which are deliberate and material are not in accordance with *fair, efficient, and openly competitive* operation of the market and will be prosecuted and sanctioned as provided for under the Act.

## **4 PERFORMANCE METRICS**

The MSA will also use a variety of performance metrics to evaluate the on-going performance and efficacy of the TPG, the Interim IDP and any IDP implemented in replacement thereof.

### **4.1 Trading Practices Guideline**

The MSA will carefully monitor and report on the effectiveness of the TPG. Specifically, we will be looking for:

- Increased number of participants in the forward market
- Increased number and volume of transactions
- Increased level of confidence amongst market participants
- Narrowing of forward market bid/ask price spreads
- Increase in the depth and breadth of the market (i.e., market liquidity)
- Convergence of forward market prices with Pool prices as a measure of efficiency



## **4.2 Information Disclosure Procedure**

The MSA will also monitor and report on the effectiveness of the IDP. In this regard, we will be looking at:

- Timing of actual outages as compared to planned outages; and
- Forced outages as a percentage of total outages.

An evaluation of the TPG and DP will be undertaken after one year. The MSA will respond to earlier indications that either the TPG or IDP are not performing as intended and will also watch for any indications of unintended consequences. The MSA will consider whether any adjustments to the guideline are necessary. Market participants are advised that depending on the results of the MSA's evaluation, the IDP could be adjusted or removed.

## **5 STAKEHOLDER CONSULTATION PROCESS**

The MSA invites market participants and other stakeholders to provide comment on any matter associated with the proposed IDP implementation plan.

### **5.1 Process for Considering Stakeholder Input**

The MSA will utilize a two-phased approach for obtaining stakeholder input. The first phase will involve receipt of written submissions from market participants and other stakeholders which will be posted on the MSA's website. The period for receiving comment will end on March 31, 2004. The MSA will then review the written submissions and determine what issues require further discussion in the second phase.

The second phase may consist of facilitated workshops involving the MSA and interested parties. The workshops would deal with outstanding issues from the first phase. The workshop process and any required follow-up discussions will occur during April, 2004. If appropriate, the MSA will also conduct "one-on-one" discussions with market participants who have specialized or unique concerns.

Market participants are advised that any verbal, written or electronic communication to the MSA concerning the TPG, the Interim IDP or the Information Disclosure Procedure will constitute part of the "public record."

### **5.2 Specific Matters**

The MSA requests that written submissions filed by interested parties consider, at a minimum, the following matters:

1. Should certain participants should be exempt from the IDP? For example, should the capacity threshold be set at 40 MW or some other amount?
2. What other parties, if any, should be covered by the IDP? For example, should inter-tie capacity, transmission facility owners, and importers and exporters be covered by the guideline?
3. What entity should be responsible for submission of information, e.g., asset owner, affiliates or agents?

4. What outage related information should be submitted to the MSA?
5. What is the appropriate time frame for submitting outage information?
6. What is a reasonable level of obligation concerning the accuracy of outage information?
7. What are reasonable alternatives concerning ways to improve the quality and certainty of outage information?
8. What level of information publication would balance the rights and needs of individual asset owners and the rights and needs of the market at large with respect to the furtherance of a *fair, efficient, and openly competitive* forward market?
9. What are the appropriate time periods for publishing outage information?
10. What performance indicators should be used by the MSA?
11. In the long-term, what is the appropriate entity for publishing outage information, e.g., AESO, MSA or other agency?
12. Suggestions for coordination of the outage information requirement for System Control, AESO Outage Coordination and the MSA? What is the point at which information about should be submitted? For example, at what point is a bona fide decision made with respect to scheduling an outage?
13. Should market participants designate a Compliance Officer and file compliance plans with the MSA?

## **6 CONCLUSION AND SUMMARY**

The MSA is taking a proactive approach to the use of information in Alberta's marketplace to ensure the continued development of a *fair, efficient, and openly competitive* market.

This report, in conjunction with the MSA Trading Practices Guideline report, completes the MSA's statement of principle and disclosure procedures pertaining to the inappropriate use of outage information for trading in the forward market. The two reports establish the rationale for the TPG, describe the framework for disclosure and publication of outage information on an interim and ongoing basis, and a commitment to assess the efficacy of the TPG and IDP and, if necessary, make appropriate adjustments. The MSA believes that the result of these initiatives will be a more robust, liquid and competitive forward market; greater efficiency; more effective monitoring and enforcement; and greater market confidence.