



Request for Proposal

Title: Electricity Market Data Transparency

Date Issued: August 30, 2011

Submission Deadline: Sept. 13, 2011



TERMS OF REFERENCE

PROPOSAL INVITATION

The Market Surveillance Administrator (MSA) is assessing whether existing approaches regarding the publication of market information (data) may facilitate interdependent behaviour by suppliers offering into the Alberta wholesale electricity market rather than promote competitive market outcomes as intended.

To assist in its assessment the MSA seeks a qualified consultant with expertise in competition analysis, auction market design and knowledge of organized wholesale electricity markets in other jurisdictions to prepare a report addressing the competition considerations related to market data transparency in the Alberta electricity market. The report will be used as input into the MSA's review of rules relating to the publication of market information and other determinants of competition in the Alberta wholesale electricity market. The MSA anticipates that, other than confidential information, the report will be made public.

The work will also consist of expert advice on whether the available evidence suggests coordinated or consciously parallel behaviour by market participants in the Alberta market and, if so, approaches to remedy this situation. The advice will be used to assist the MSA in carrying out its investigative and enforcement functions under the *Alberta Utilities Commission Act*, that is, in determining whether conduct has occurred that does not support the "fair, efficient and openly competitive" operation of the market. The MSA anticipates that this part of the work will entail private communications between the consultant and the MSA.

BACKGROUND

In Alberta all wholesale electrical energy from generation that is not consumed on site must flow through what is known as the Power Pool. The Power Pool is operated by Alberta's Independent System Operator (ISO) whose company name is Alberta Electric System Operator (AESO). The Power Pool is the physical clearing market for the Alberta Interconnected Electric System. Alberta's market design is 'energy only'; there is no separate capacity market. The wholesale Power Pool is the spot market for bulk wholesale electrical energy where the price is set in real time through a mechanism whereby generating units are dispatched as required to balance total load with supply and price is set by the marginal producer. The spot market operates 24 hours a day, seven days a week.

Each day, generators submit their offers to the Power Pool for the following seven days. For each generating unit, a total of seven offer blocks are submitted for each hour. Generators are allowed to offer their energy at any price between \$0 and \$999.99/MWh. They are free to make changes to their offer prices (but not their offered volumes) closer to real time as the market unfolds. Two hours before real time all price changes must stop and the only allowable changes are those associated with operational

issues at the units. The market is settled each hour based on the system marginal prices (SMP) during that settlement period.

The Alberta legislation, in particular the *Fair, Efficient, Open Competition Regulation* includes provisions preventing market participants from sharing offer information (price and quantity) for a period of 60 days. At this time the ISO is instructed to make the merit order (price, quantity (PQ) pairs along with asset names adjusted for availability and constraints) available to the public on its website. The ISO also publishes, in the absence of specific direction from legislation, various other reports that include information otherwise not available to the public.

In real time the ISO publishes:

- the system marginal price and the block size of that offer block setting SMP; and
- the total net generation by asset (approximately updated every minute).

Approximately 5-10 minutes after the end of the hour the ISO publishes a “Historical Trading Report” that consists of PQ offers without asset names or adjustments for availability and constraints.

The MSA’s *Offer Behaviour Enforcement Guidelines* (Guidelines or OBEGs), released January 2011, distinguished between unilateral and coordinated effects in discussing market participant behaviour. With respect to unilateral behaviour the Guidelines stated that the MSA would not proceed against market participants pursuing profit opportunities that did not impede competition and that, for example, economic withholding, as an independent firm strategy, would not raise a concern.

Regarding coordinated effects the Guidelines, noting Alberta’s oligopoly market structure, observed that: “... the MSA must be vigilant to potential adverse competitive effects...that is, the risk of coordinated, accommodating, or interdependent behaviour among rivals.” The Analytical Framework discussion paper released during the Guidelines consultation process foreshadowed consideration of changes in the market framework as a means to mitigate forms of interdependent behaviour, short of overt collusion.

Beginning in late 2010, coincident with stakeholder consultation and later release of the Guidelines, there have been many examples of apparent economic withholding, as documented in the MSA’s Quarterly Reports. The MSA has observed a relatively limited competitive response to this behaviour, for example, it is not uncommon for offers of two or more market participants to quickly cluster over a very narrow range and remain in a stable pattern where those participants all have undispached MW.

ABOUT MSA

The Market Surveillance Administrator is an independent enforcement agency established by legislation to protect and promote the fair, efficient and openly competitive operation of Alberta’s wholesale electricity (and its retail electricity and natural gas) markets. The *Alberta Utilities Commission Act* bestows a broad mandate on the MSA including monitoring, investigation and enforcement of inappropriate conduct by market participants and the structure and performance of the electricity market.

PROJECT SCOPE & DELIVERABLES

To assist the MSA in being satisfied that the existing approaches regarding the publication of market data and the conduct of market participants in the face of these approaches support the fair, efficient and openly competitive operation of the Alberta Power Pool, the MSA intends to hire an expert consultant to:

1. Prepare a report that:
 - Critically reviews the competition law/economics literature on transparency of market information to identify the key considerations that promote competitive market outcomes particularly in the context of auction based markets with structural characteristics similar to the Alberta Power Pool. The review would take into consideration technical, operational or market design considerations in wholesale electricity markets relevant to market data publication.
 - Critically reviews the practices and protections in other electricity markets regarding market data publication as a basis for identifying best practices to promote competitive market outcomes that could be applied in Alberta. The review would take into consideration differences in the characteristics of other markets compared to Alberta before selecting the best practices.
 - Identifies decision rules or tests the ISO could apply before making otherwise confidential information public in order to promote competitive market outcomes without interfering with the safe, reliable and economic operation of the Alberta Interconnected Electric System.
2. Upon the request of the MSA, present the report described in #1 to Alberta Power Pool stakeholders (confidential information redacted).
3. Assist the MSA to determine whether the conduct of market participants supports the fair, efficient and openly competitive operation of the market.

PROJECT TEAM

The successful consultant will work with the MSA to develop its report and other deliverables.

The project team will provide public and private background information, guidance and direction. Matt Ayres, Chief Economist at the MSA is the consultant's point of contact.

Any responsibilities of MSA beyond what is described in this section should be identified in the consultant's proposal.

PROJECT TIMING

The following anticipated timing and dates are subject to change:

DESCRIPTION	DATE
RFP Issue	August 30, 2011
Proposal due date	September 13, 2011
Evaluation of proposals	September 14, 2011
Interview of short listed proponents	September 14, 2011
Award of contract	September 15, 2011
Contract start date	September 15, 2011
Submission of draft report to MSA	October 17, 2011
Final report due date to MSA	October 31, 2011
Presentation of report to stakeholders	November 4, 2011
Project completion date	November 10, 2011

Consultants are asked in their proposals to confirm that the above timetable is achievable and will result in a successfully developed contract for services.

PROPOSAL CONTENT REQUIREMENTS

All proposals must include the following:

1. Your understanding of our needs.
2. Proposed work plan and schedule.
3. Proposed allocation of work and fees among the deliverables.
4. Fees including disbursement and taxes.
5. Description of project lead and team members' experience in related projects, in particular work for other electricity market monitors, roles and time spent on the identified projects.
6. Identification of any potential conflict of interest (such as work for an Alberta electricity market participant) and plan to address and mitigate it.
7. Arrangements to protect and return any confidential information that the MSA may share in furtherance of the contract for services.

PRICING

A total of \$75,000 (exclusive of taxes) has been allocated by the MSA for its assessment of the impact of market data transparency on competitive outcomes in the Alberta Power Pool. Not all of this will necessarily be spent on the contract for services outlined in this RFP.

CONSULTANT SELECTION CRITERIA

The selection of a consultant will be based on the following criteria:

- Completeness & quality of proposal in addressing the “Terms of Reference”.
- Feasibility of the proposed methodology, process and timelines/schedule.
- Experience, knowledge and competency of the principal consultant and identified project associates.
- Nature of any conflict of interest and mitigating plan.
- Proposed treatment of confidential information.
- Cost and value of services proposed.
- Resources and capabilities.

SUBMISSION DEADLINE

Tuesday September 13, 2011

Attention: Matt Ayres

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REFERENCES

Regulation

Fair, Efficient, Open Competition Regulation

http://www.qp.alberta.ca/574.cfm?page=2009_159.cfm&leg_type=Regs&isbncln=9780779747719

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Offer Behaviour Enforcement Guidelines

<http://albertamsa.ca/uploads/pdf/Consultations/Market%20Participant%20Offer%20Behaviour/Decide%20-%20Step%205/Offer%20Behaviour%20Enforcement%20Guidelines%20011411.pdf>

Analytical Framework discussion paper

http://albertamsa.ca/uploads/pdf/Archive/MSA_Discussion_Paper2_061710.pdf

Foundational Elements discussion paper

http://albertamsa.ca/uploads/pdf/Archive/Foundational_Elements_100427.pdf

Quarterly Reports

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

ISO Reports

System Marginal Price Report

<http://ets.aeso.ca/> *select current / -- system marginal price*

Historical Trading Report

<http://ets.aeso.ca/> *select historical / -- Historical Trading*

Current Supply & Demand

http://ets.aeso.ca/ets_web/ip/Market/Reports/CSDReportSerolet